



SPRING CONFERENCE 2024

Economic Conditions Update





NAVIGATING THE ECONOMIC AND REAL ESTATE TRANSITION

NCREIF spring conference 2024

Innes McFee

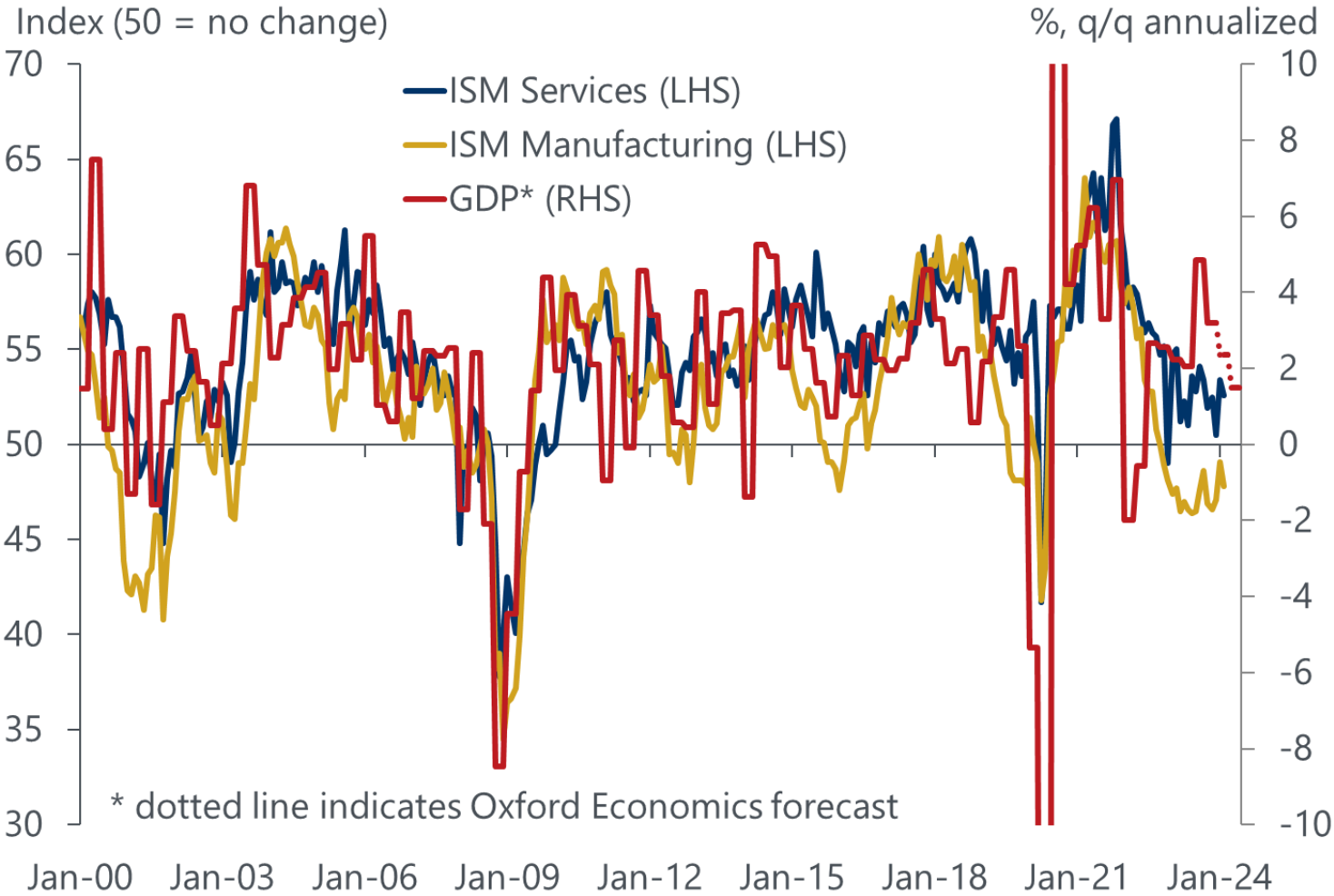
Chief Global Economist | Managing Director

March 2024



The path to a soft economic landing seems to be widening

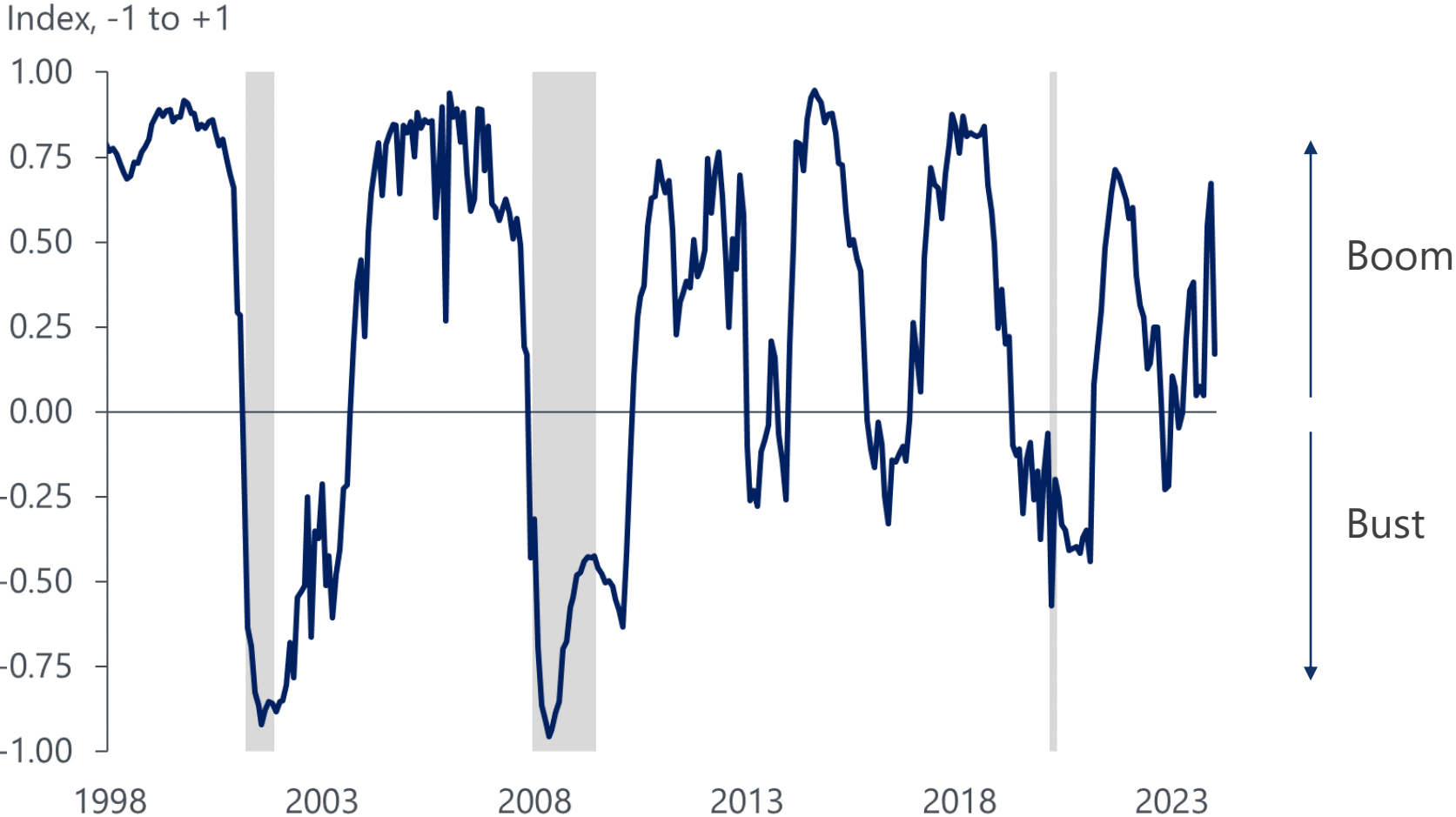
US: real activity measures



Source: Oxford Economics/Haver Analytics

The US business cycle still looks healthy

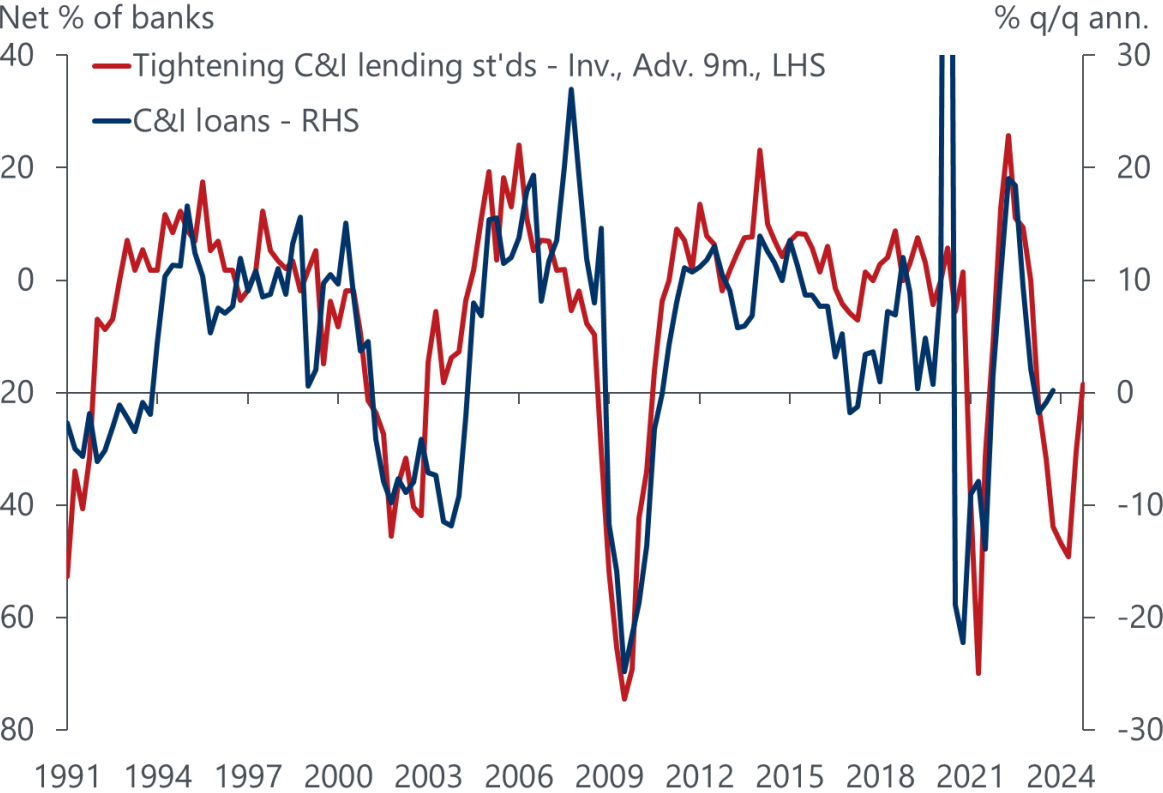
US: Oxford Economics' US Business Cycle Indicator



Source: Oxford Economics/Haver Analytics

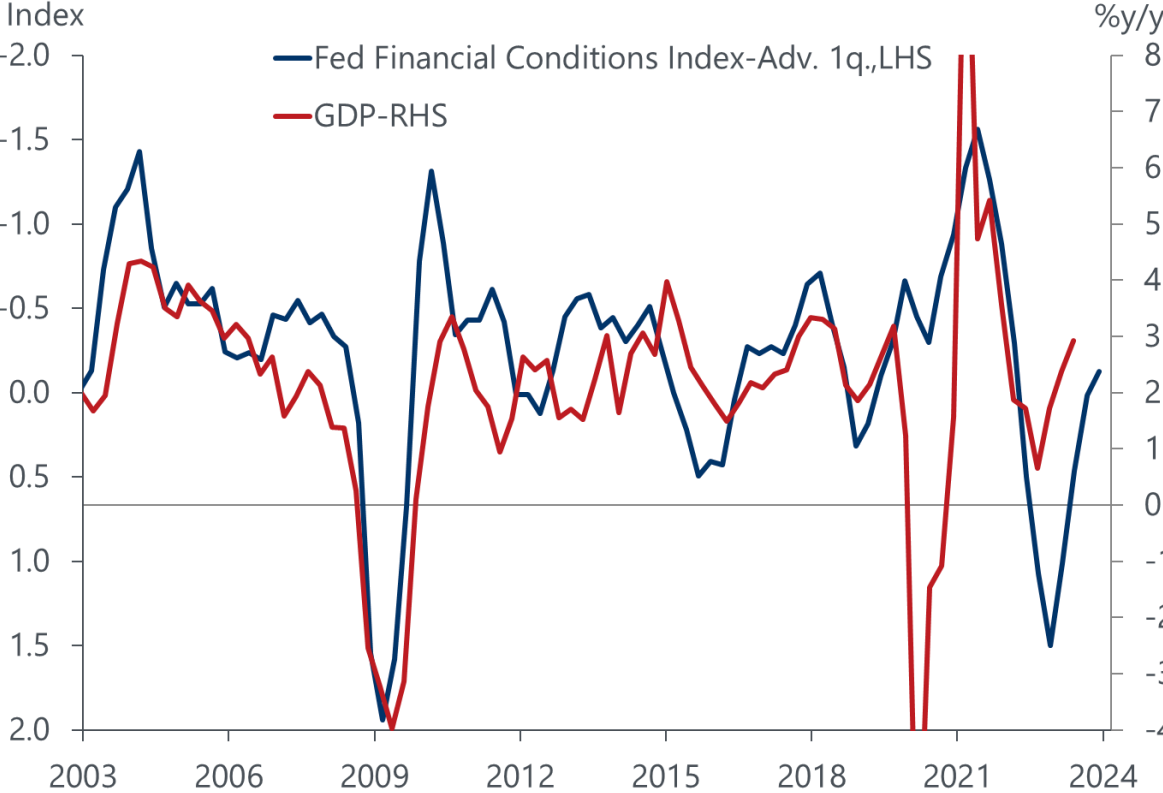
Activity has been resilient to the monetary tightening

US: C&I lending standards & loans



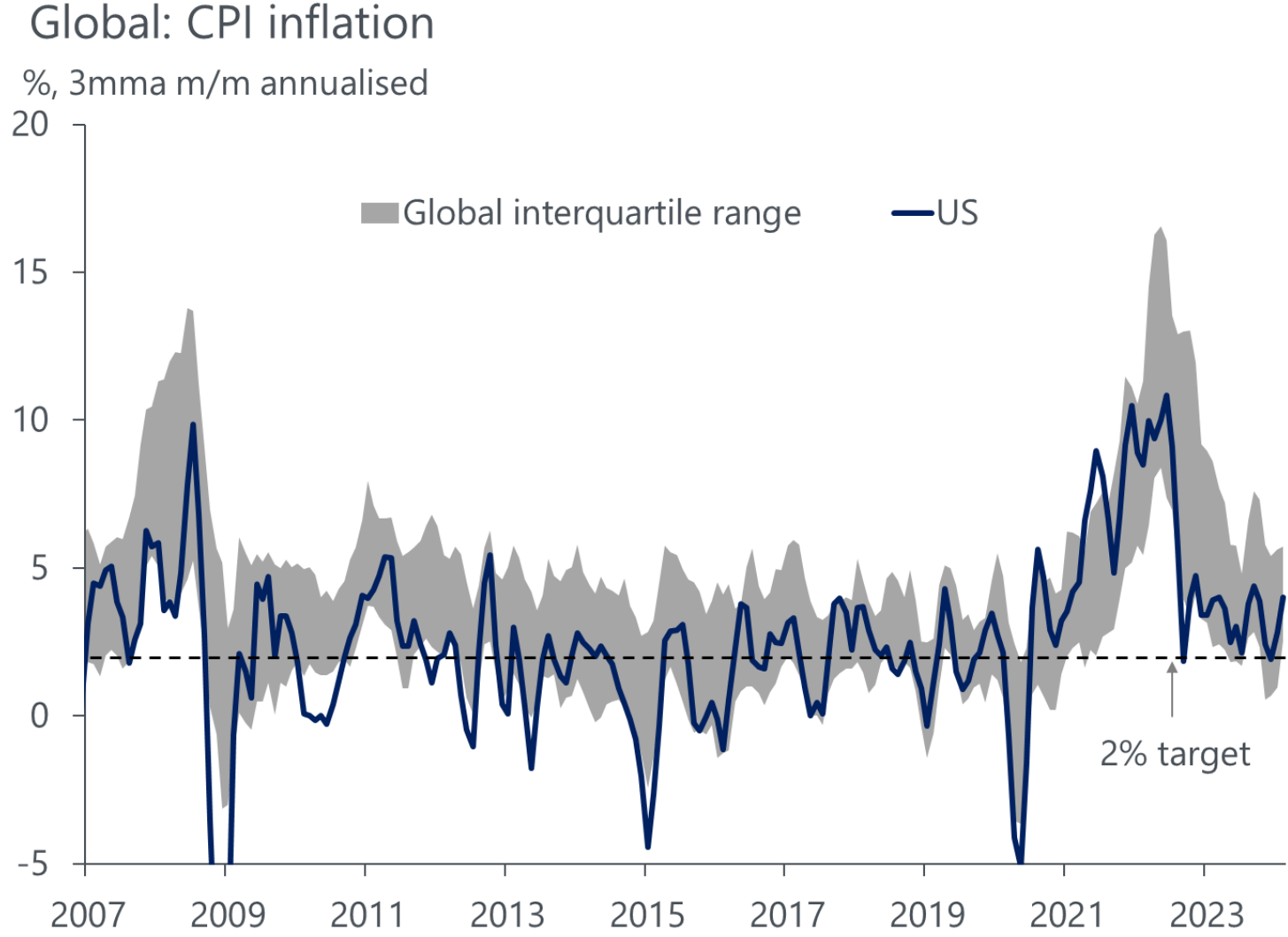
Source: Oxford Economics/Haver Analytics

US: Financial conditions and GDP growth



Source: Oxford Economics/Haver Analytics

Are we on course for an immaculate disinflation?

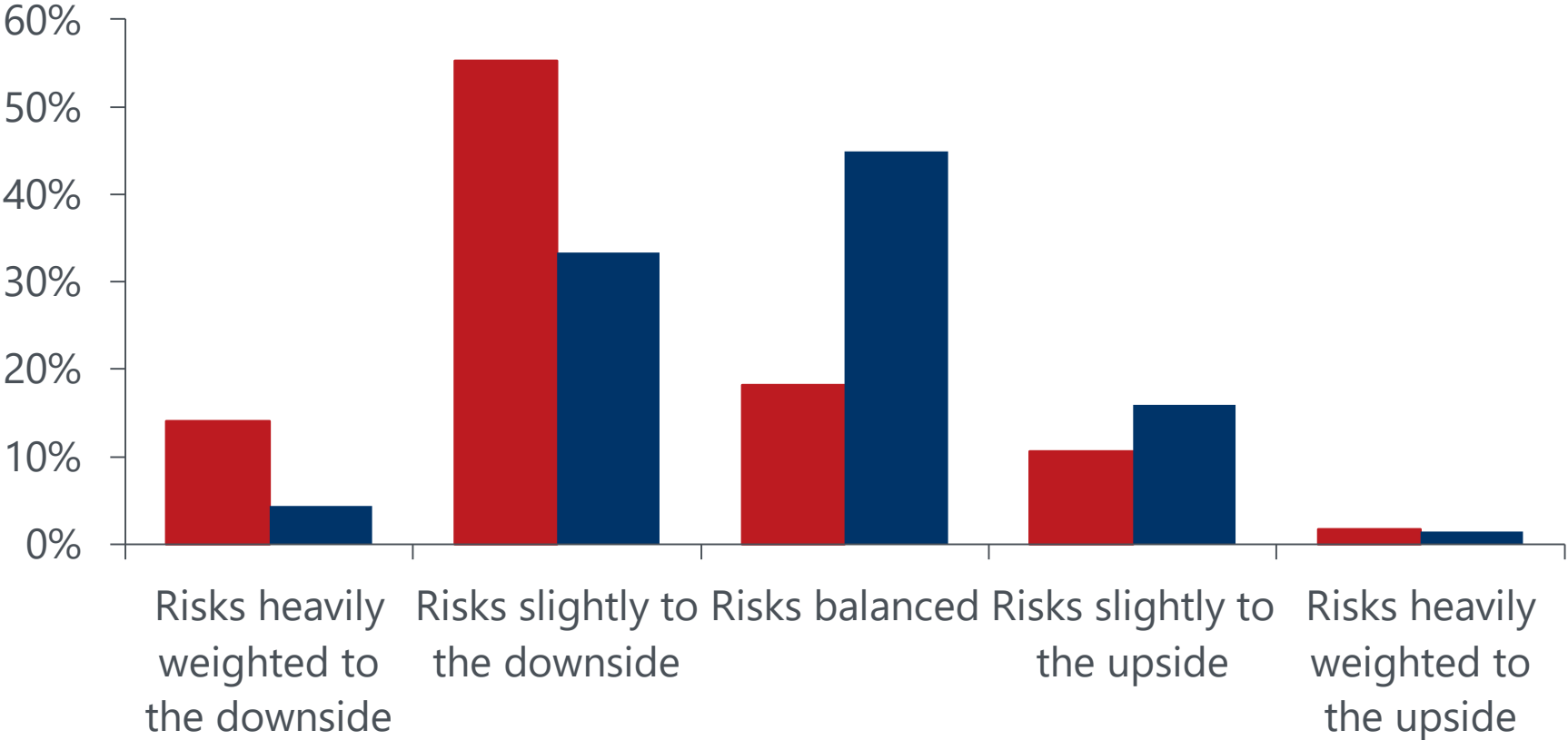


Source: Oxford Economics/Haver Analytics

The risks around the outlook appear more balanced

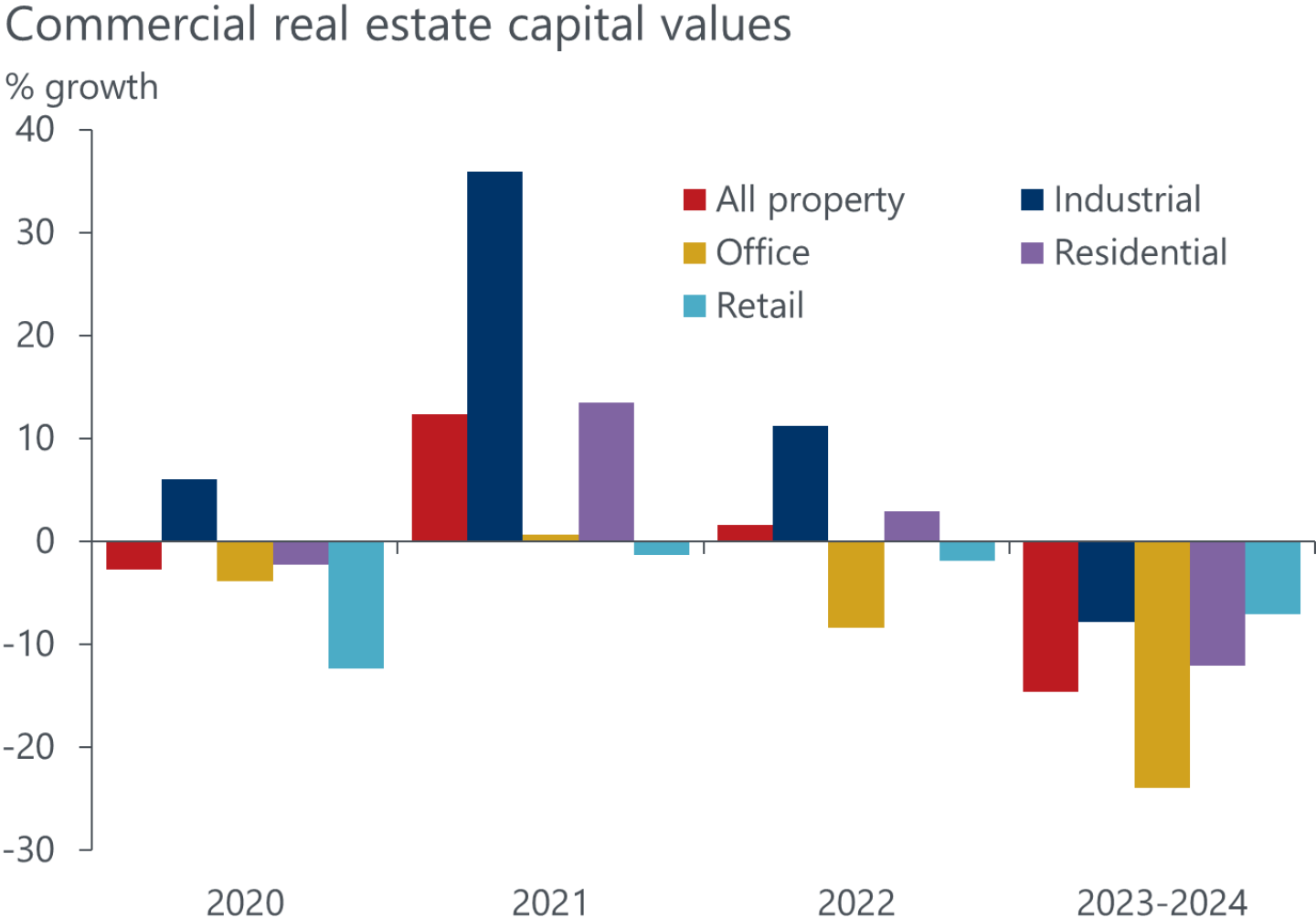
Looking ahead to the next two years, how do you view the risks to our baseline forecast for world GDP growth?

Percentage of respondents ■ September 2022 ■ Latest Global Risk Survey



Source : Oxford Economics

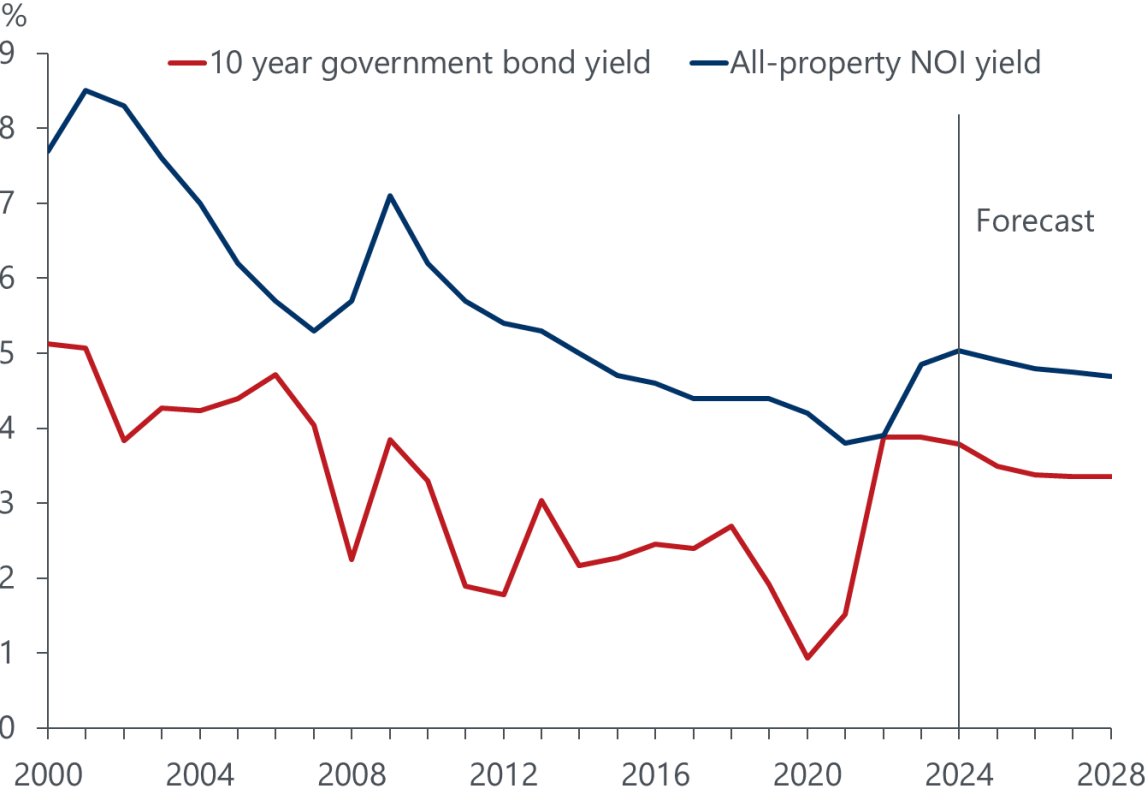
In contrast, CRE is in the midst of an adjustment...



Source: Oxford Economics/MSCI

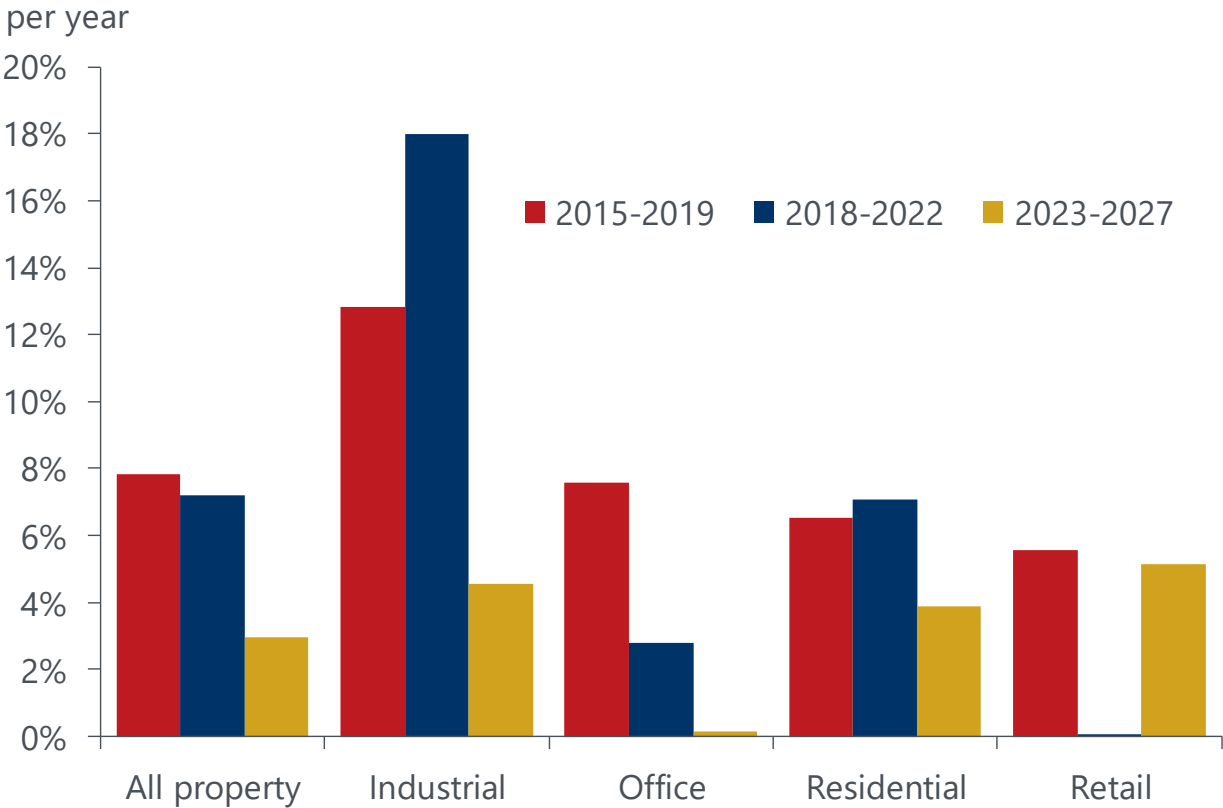
...but there are positive signs ahead

US: 10y govt bond yield and CRE NOI yield



Source: Oxford Economics/Haver Analytics/MSCI

Total return per year



Source: Oxford Economics/MSCI

Four key questions for real estate

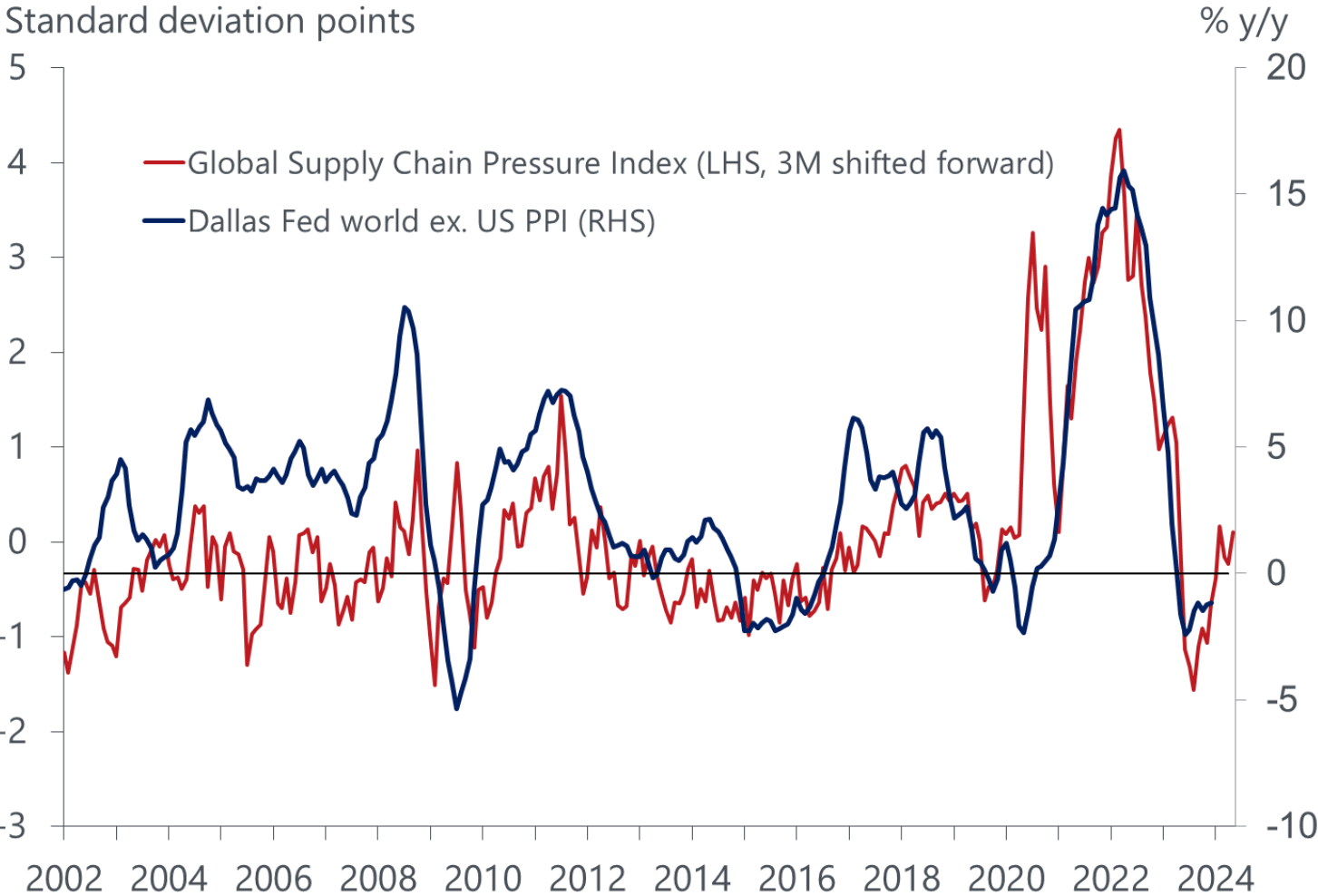


Four key questions for real estate



Supply chains and energy prices have allowed inflation to fall

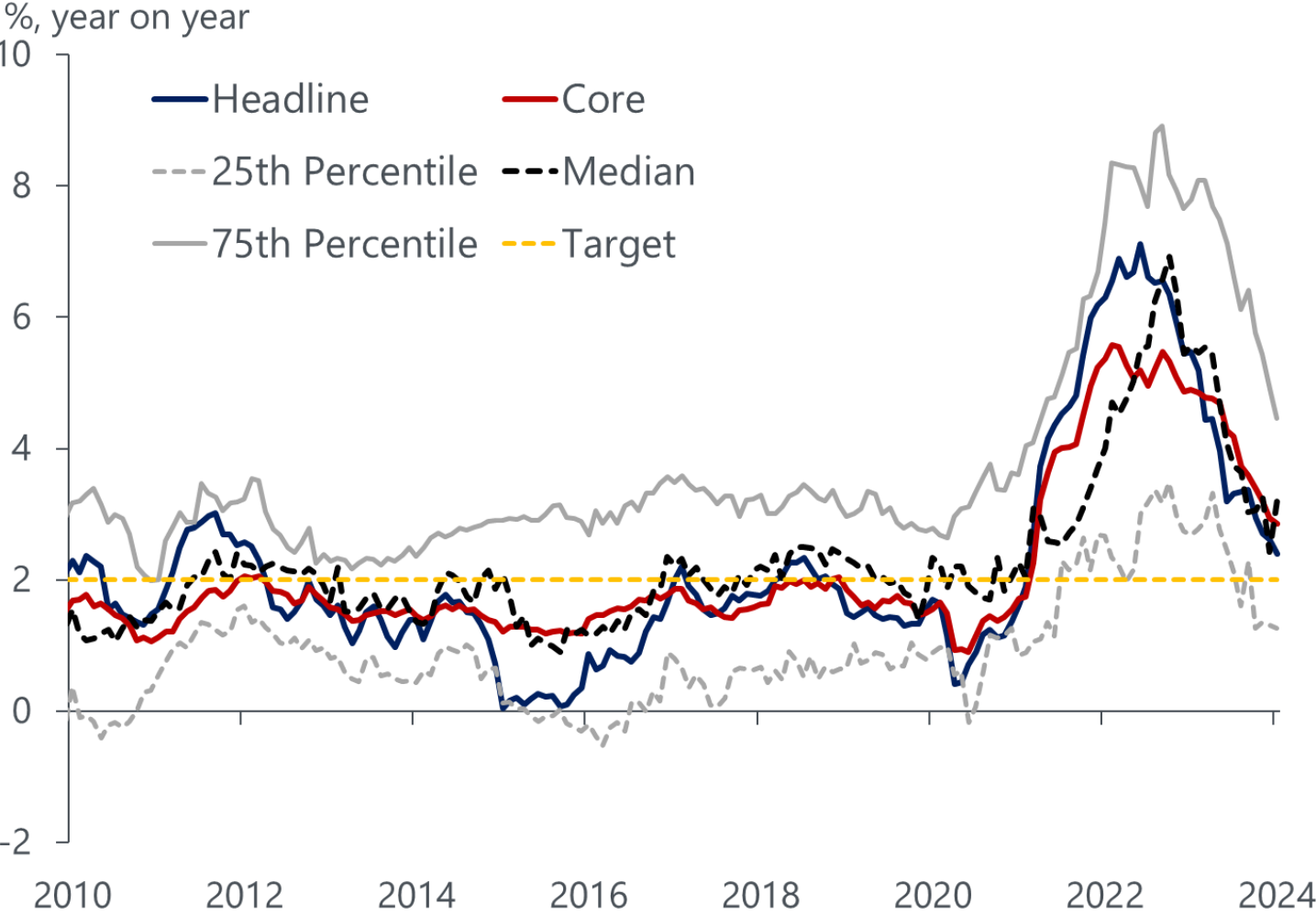
Global supply chain pressures and producer prices



Source: Oxford Economics/Haver Analytics

Fed will look at the breadth of disinflation

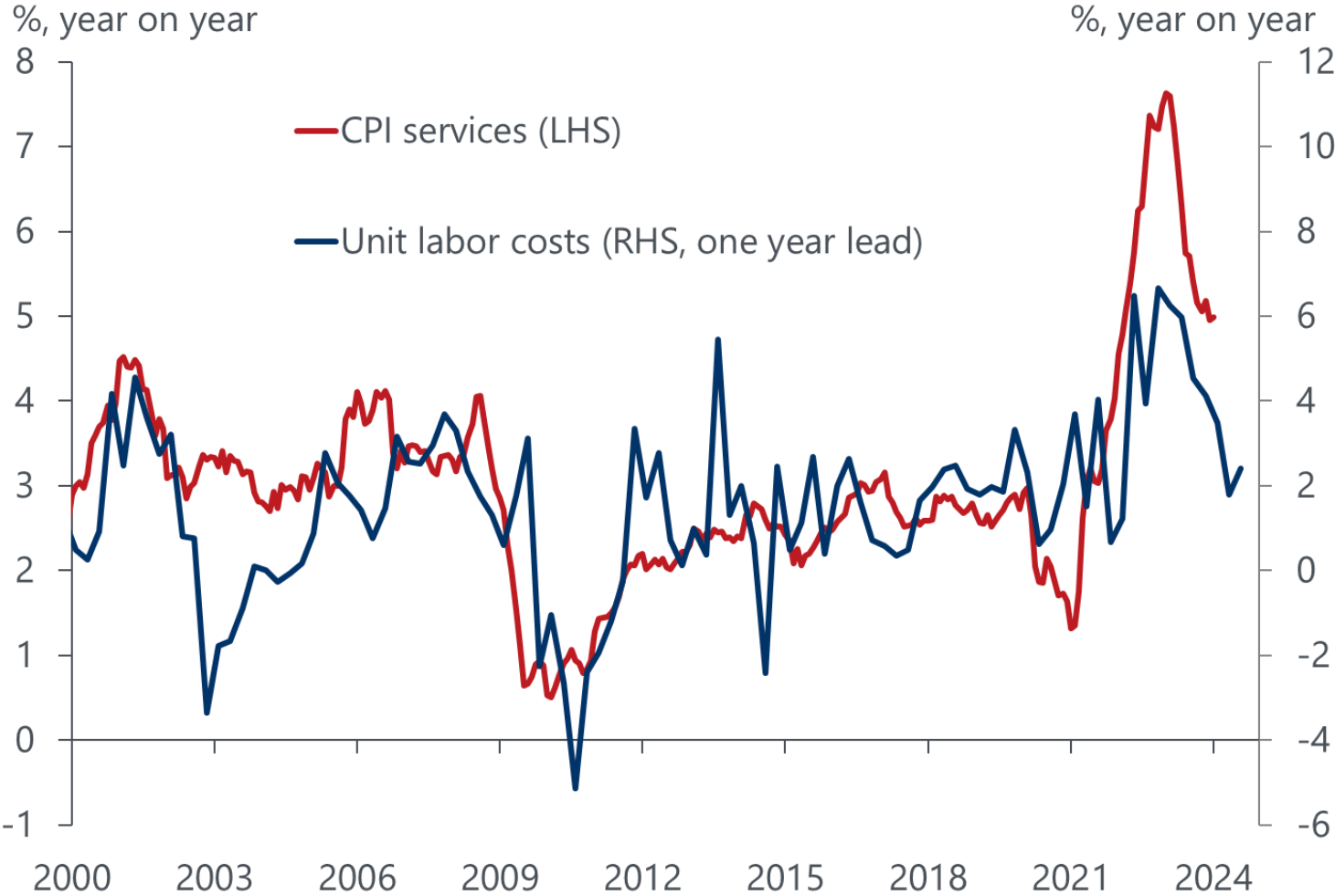
US: Distribution of PCE inflation



Source: Oxford Economics/Haver Analytics

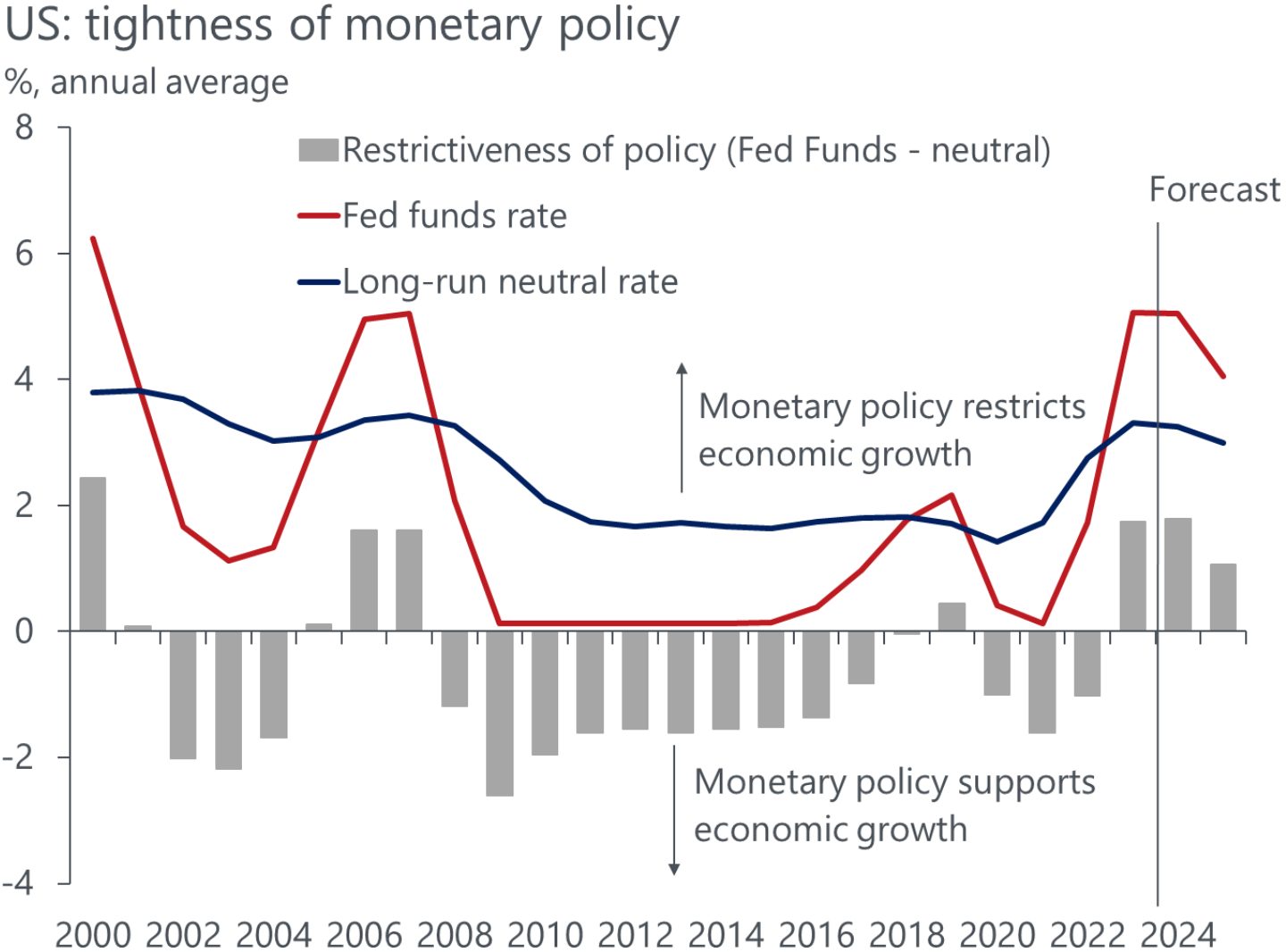
Surging supply side should relax the Fed

US: services inflation and unit labour costs



Source: Oxford Economics/Haver Analytics

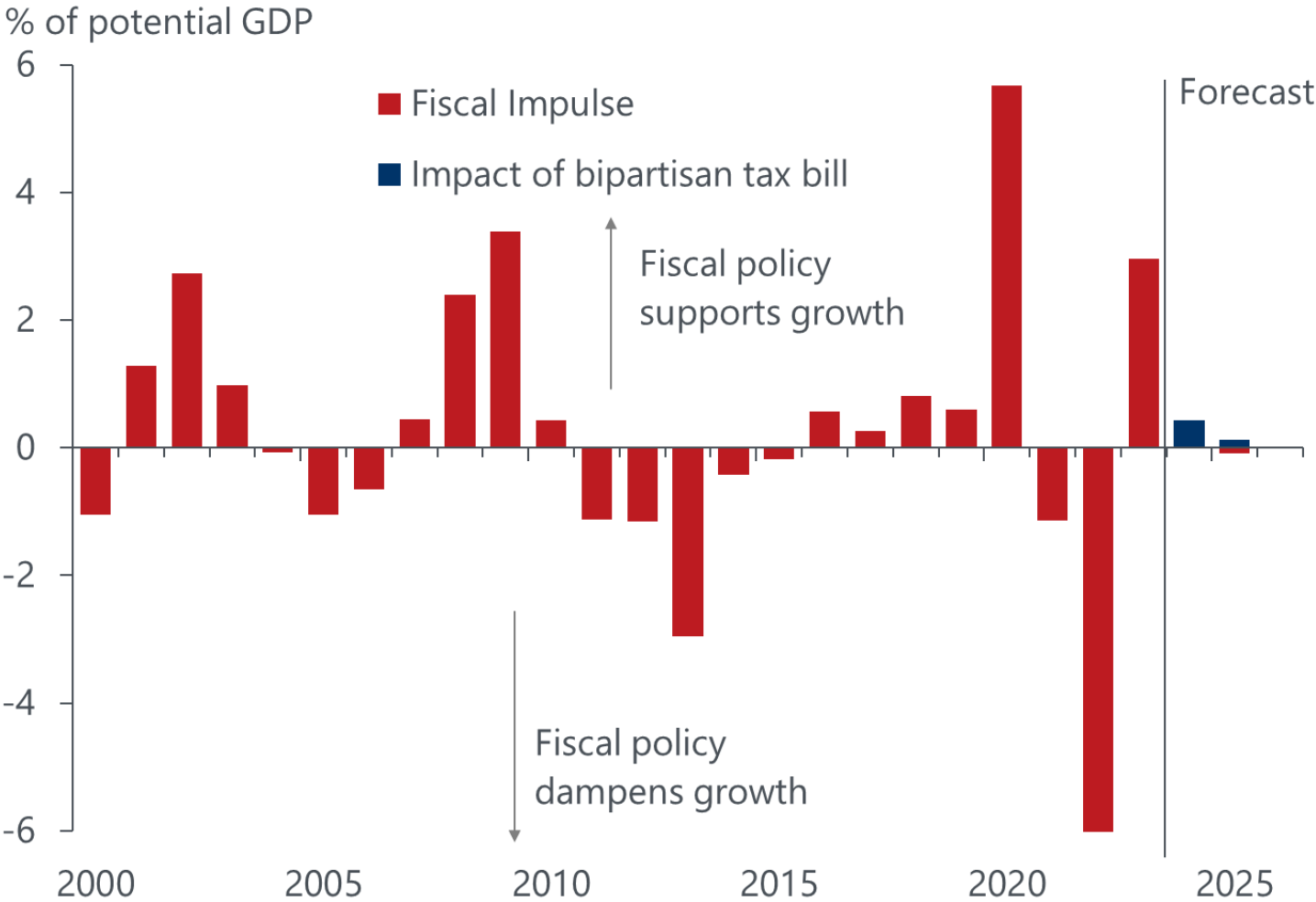
Monetary policy is still restrictive...



Source: Oxford Economics/Haver Analytics

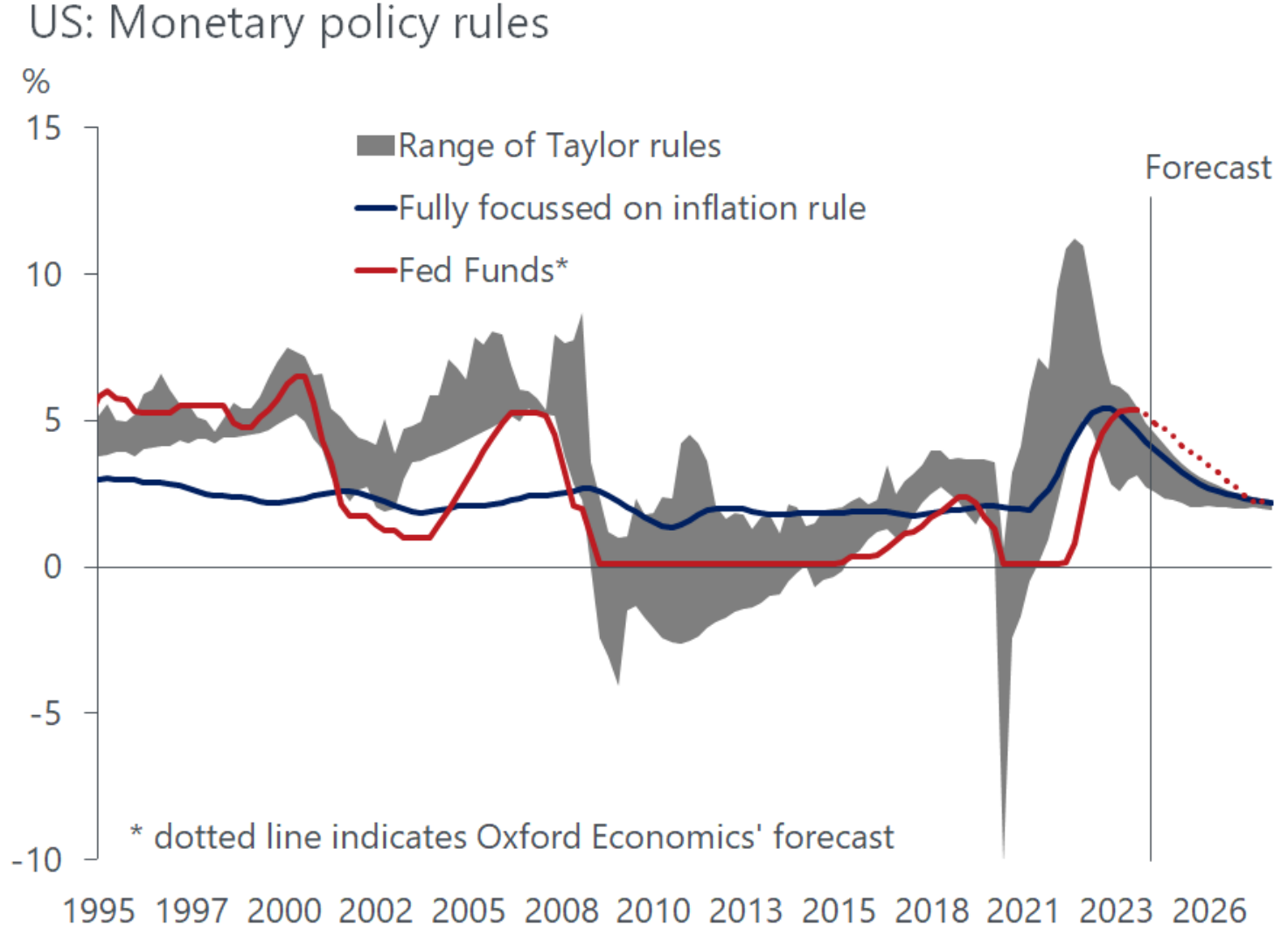
...and fiscal policy is turning less supportive

US: impulse to growth from discretionary fiscal policy



Source: Oxford Economics

We expect gradualism from the Fed

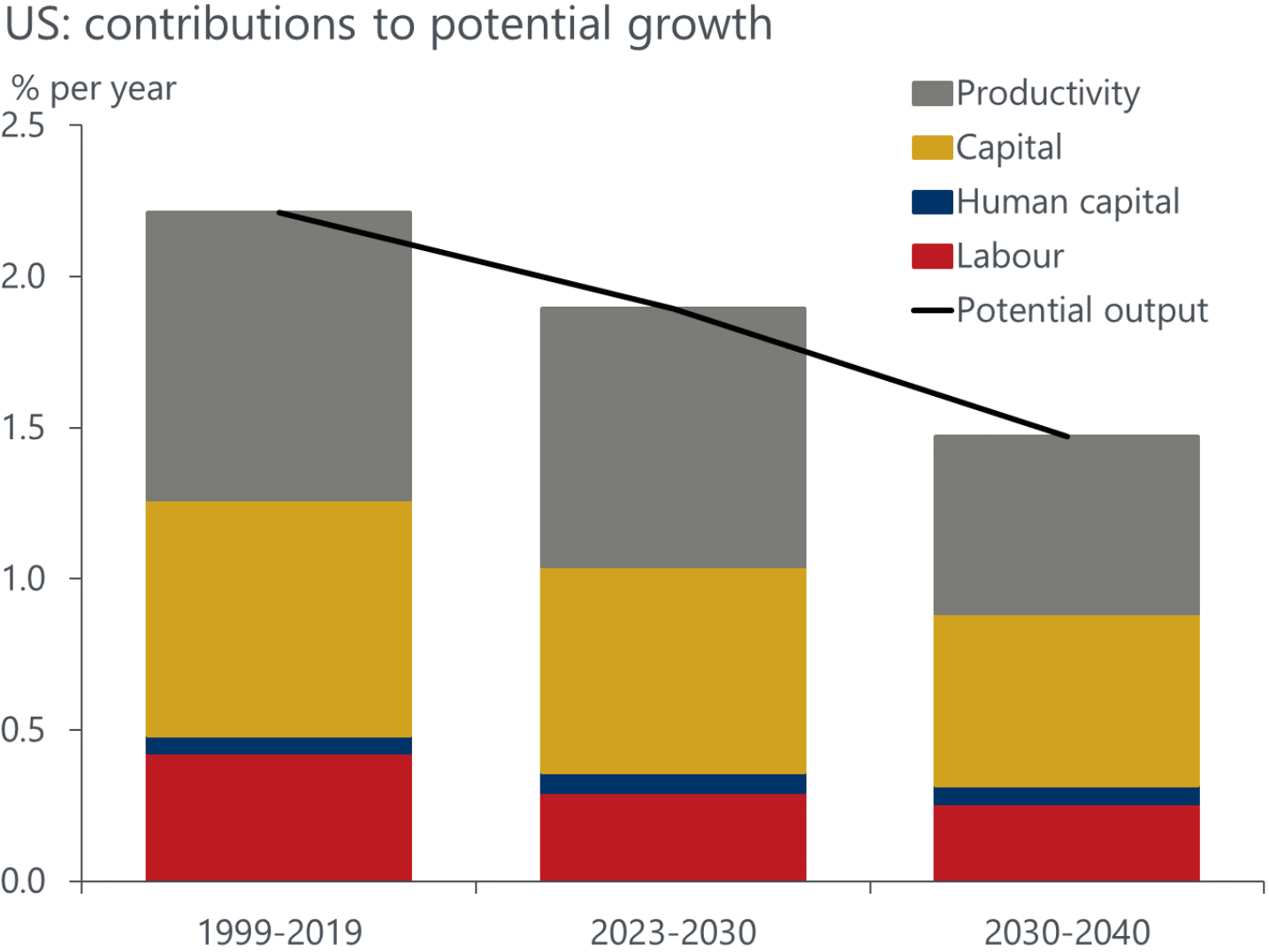


Source: Oxford Economics/Haver Analytics

Four key questions for real estate

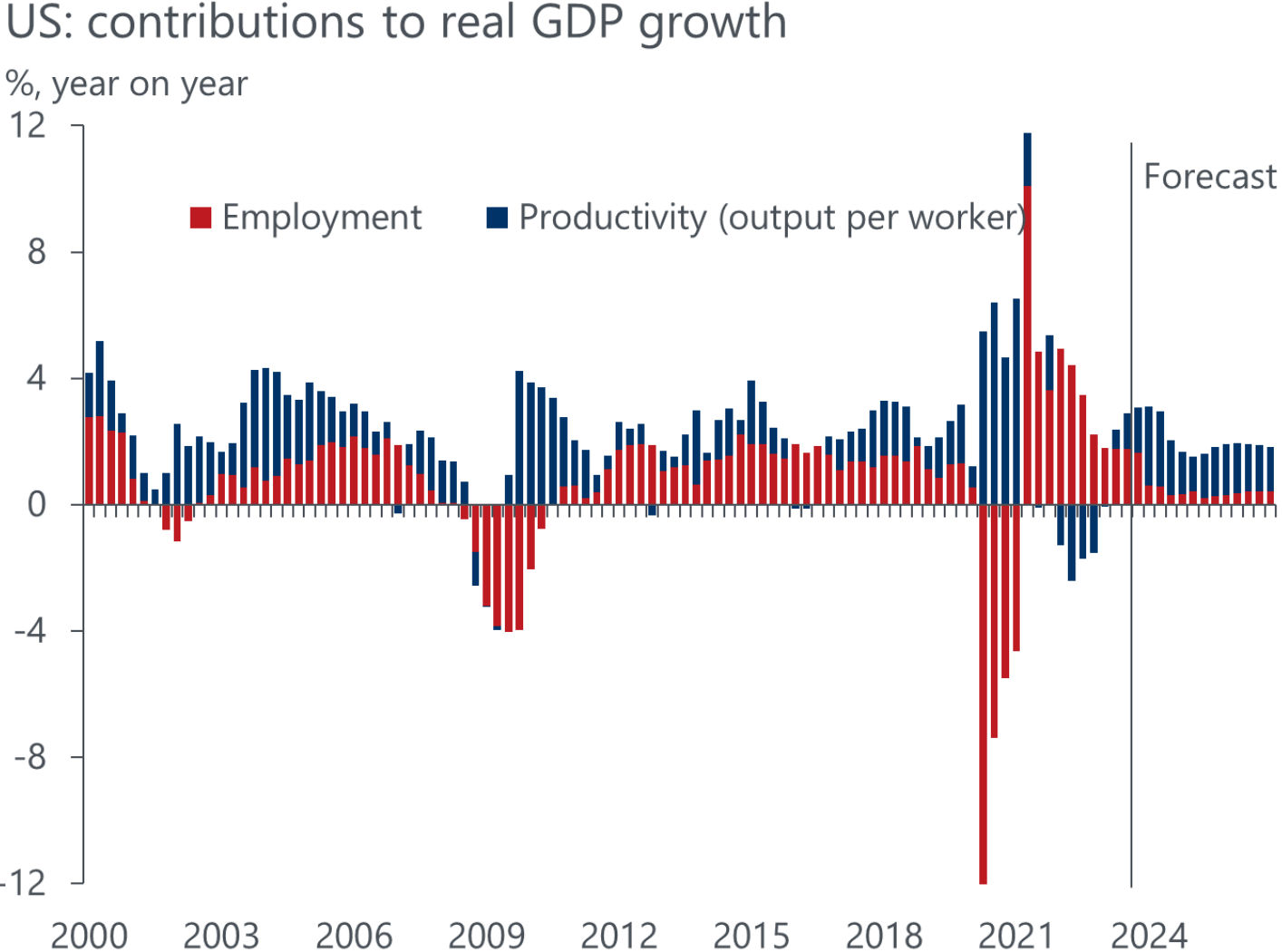


Slower growth isn't just cyclical weakness



Source : Oxford Economics

Growth reliant on productivity not employment



Source: Oxford Economics/Haver Analytics

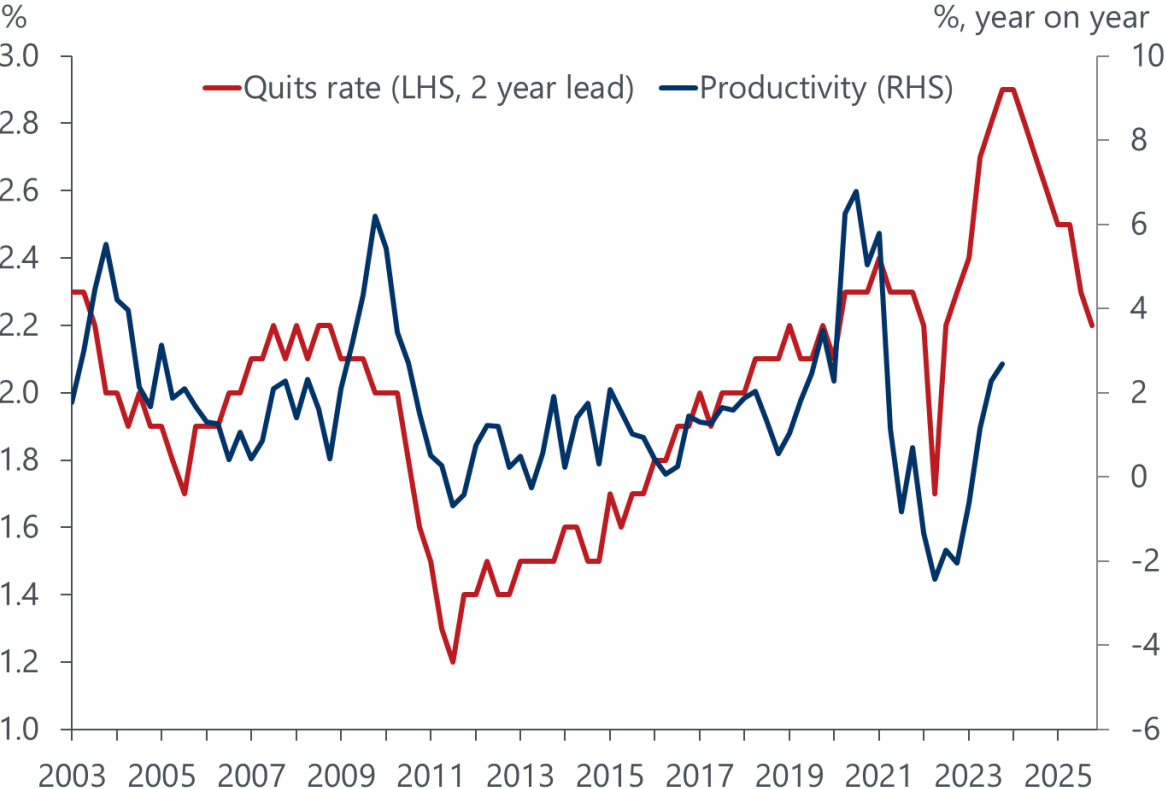
The US may be seeing a return to business dynamism

US: High-propensity business applications



Source: Oxford Economics/Haver Analytics

US: Labor market churn leads productivity growth

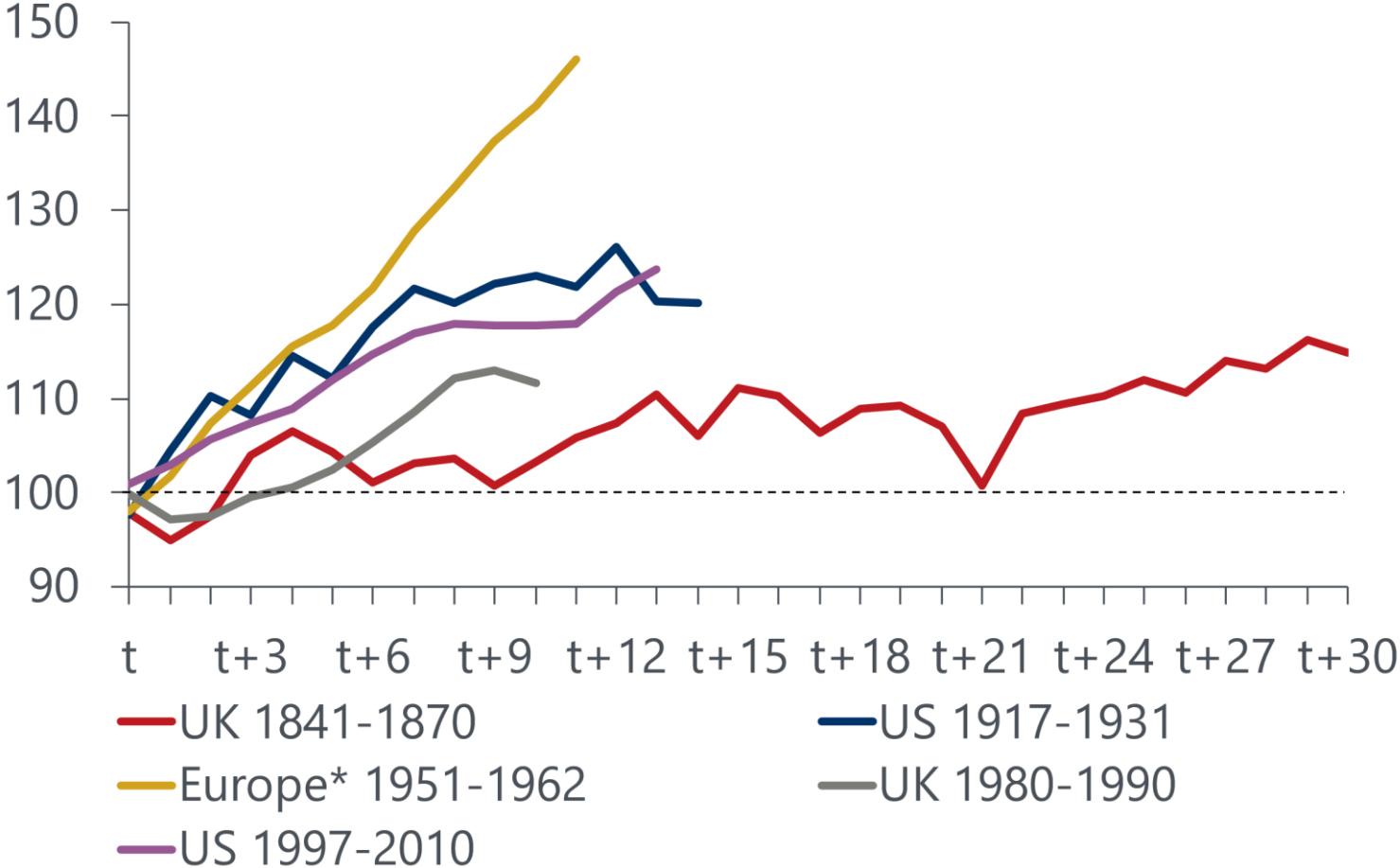


Source: Oxford Economics/Haver Analytics

A note of caution from history

World: Notable productivity surges

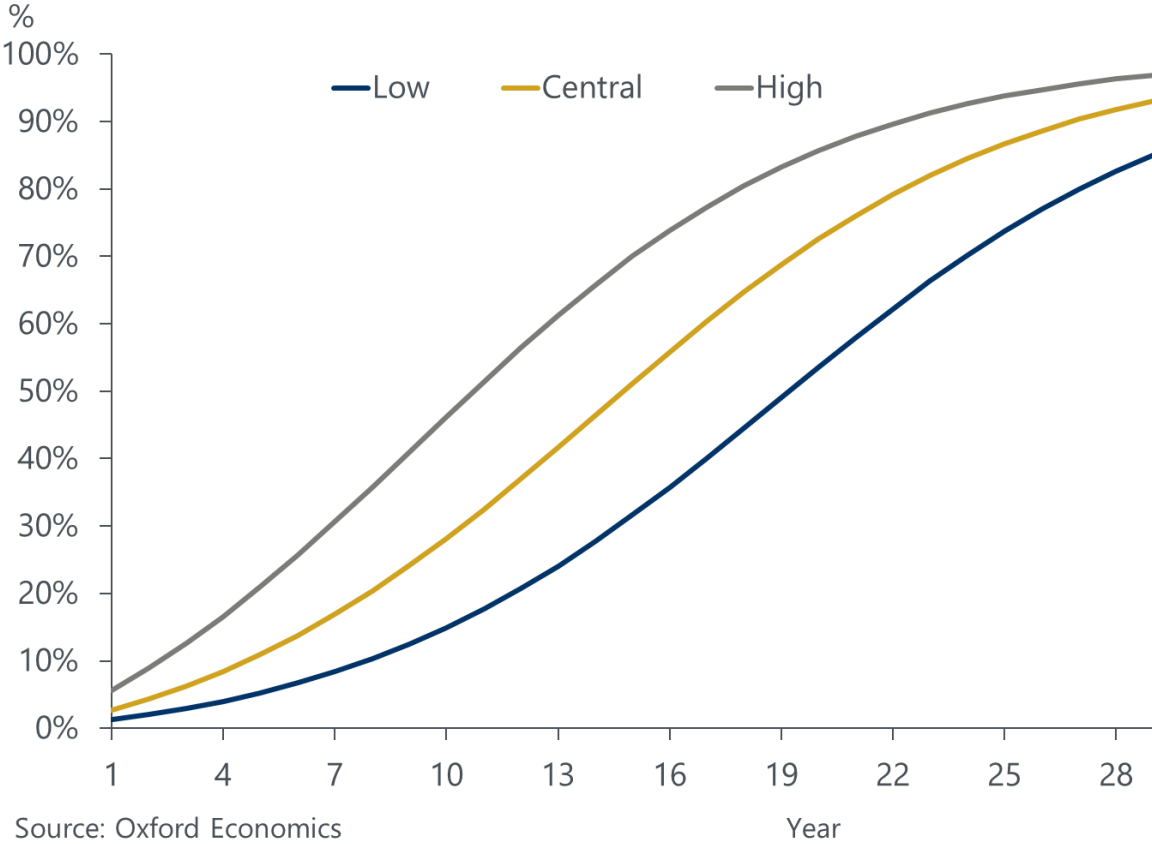
Indices of levels compared to extrapolated pre-surge trend



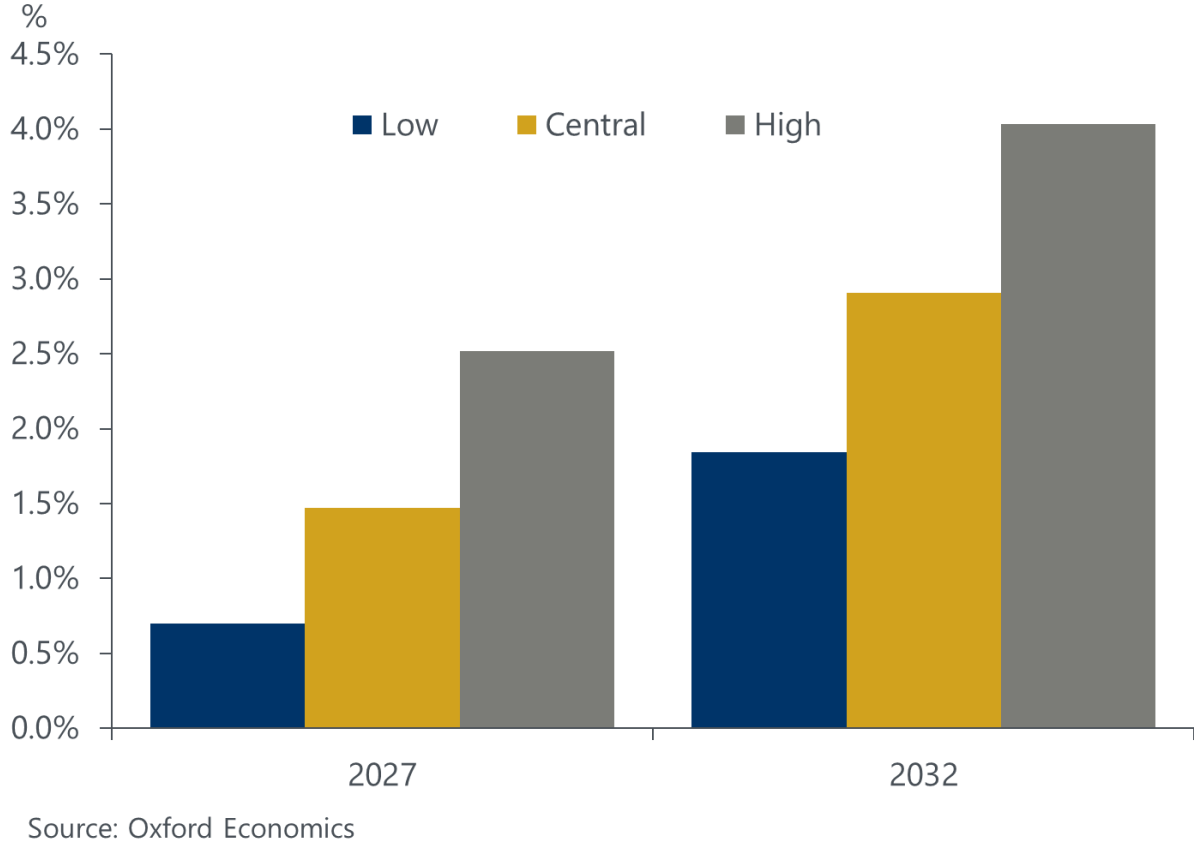
AI could provide a long run productivity boost



US: rate of generative AI adoption

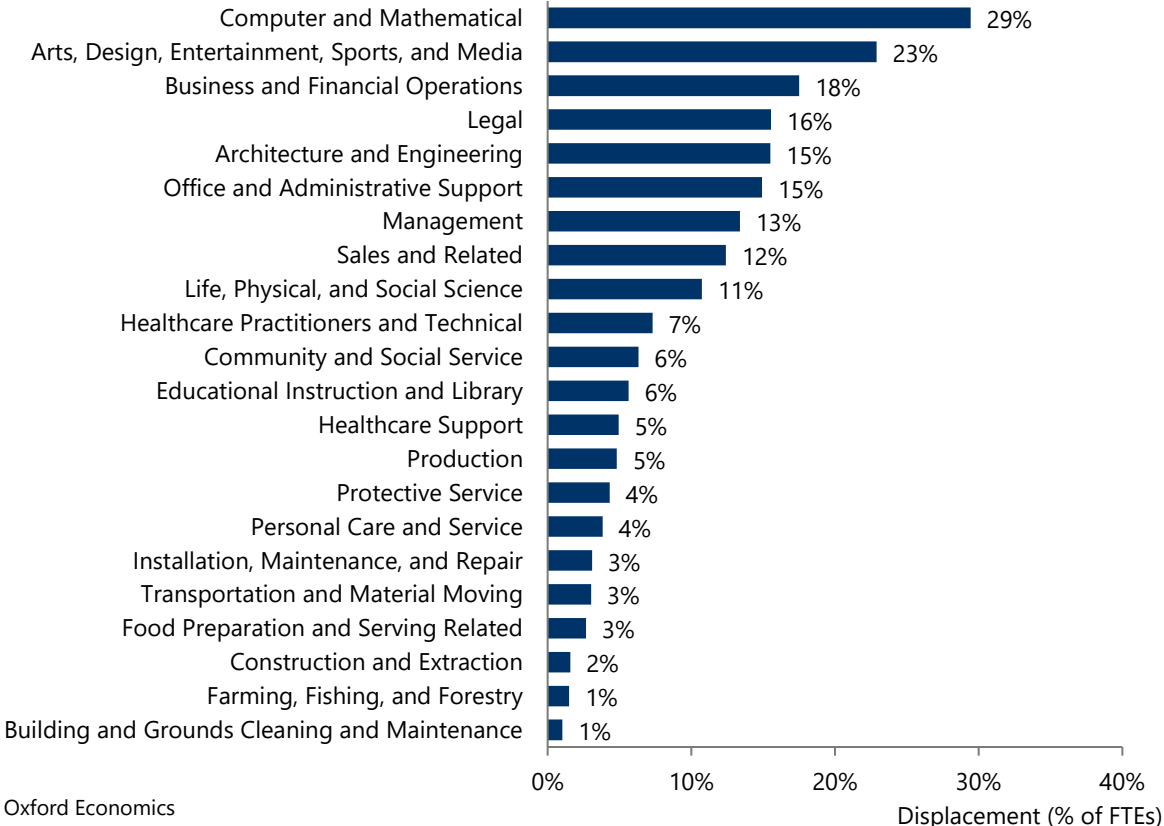


US: impact on real GDP levels



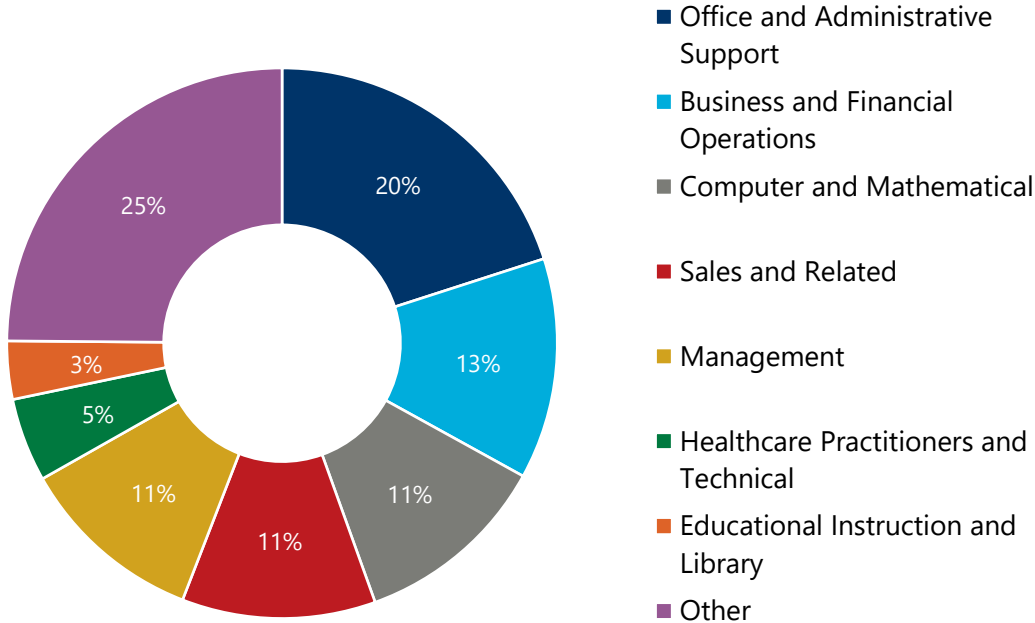
Office based employment disrupted by generative AI

US: Displacement by occupation group



Source: Oxford Economics

US: Share of displaced workers by 2032



Source: Oxford Economics

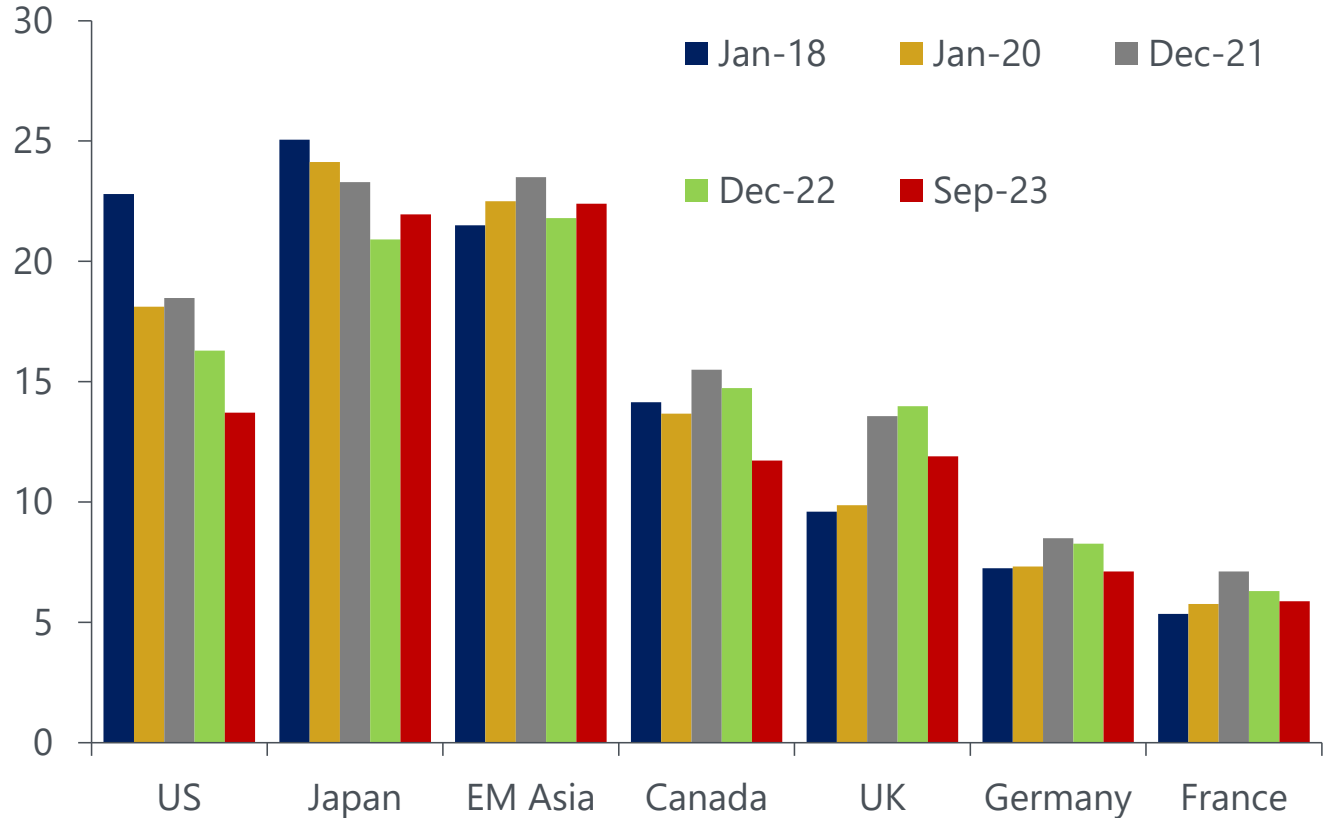
Four key questions for real estate



Deglobalisation to date has been exaggerated

Advanced economies: Imports from China

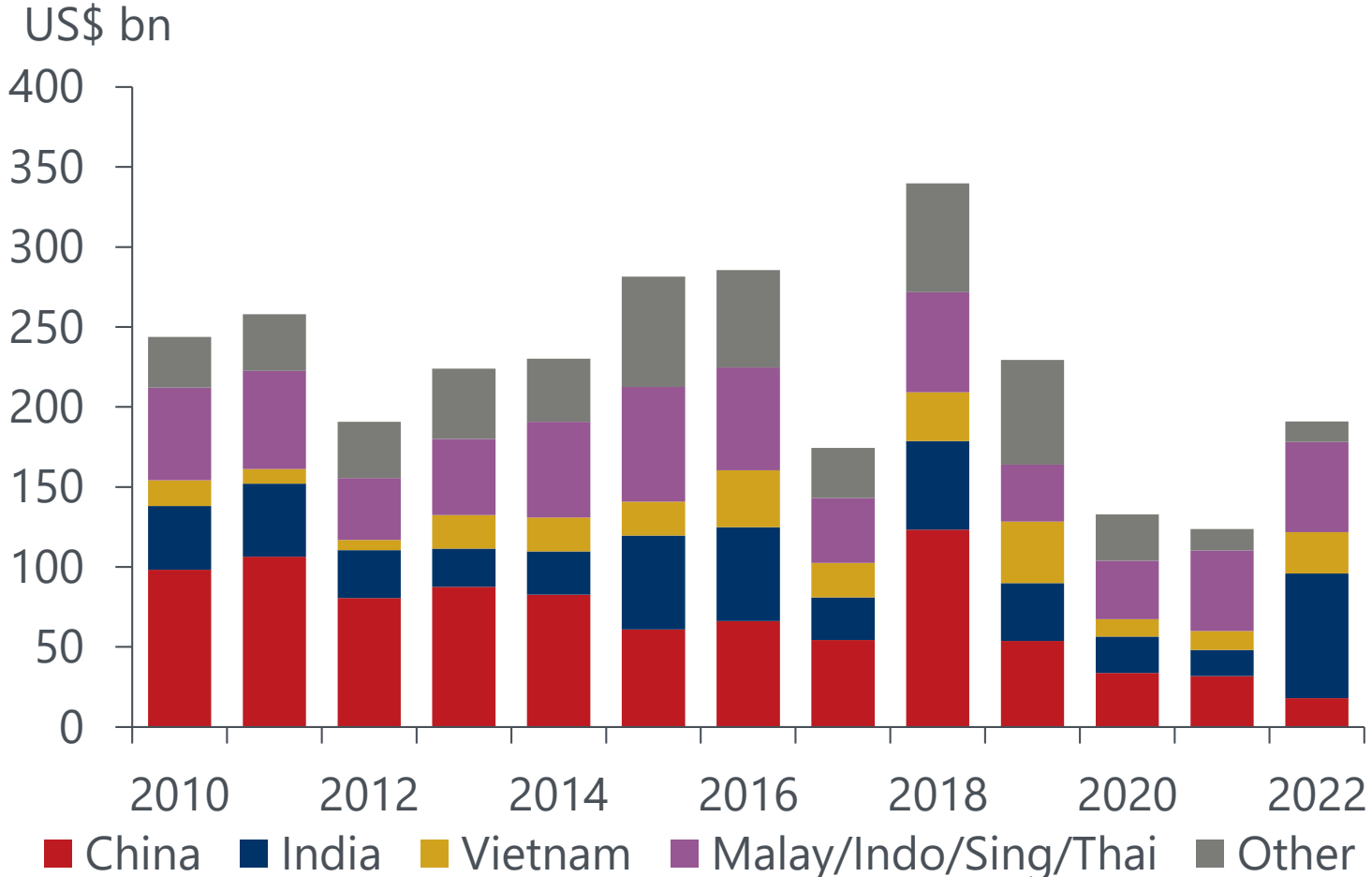
% share in total imports (six-month averages)



Source : Oxford Economics/Haver Analytics

There has been a striking drop in greenfield FDI to China

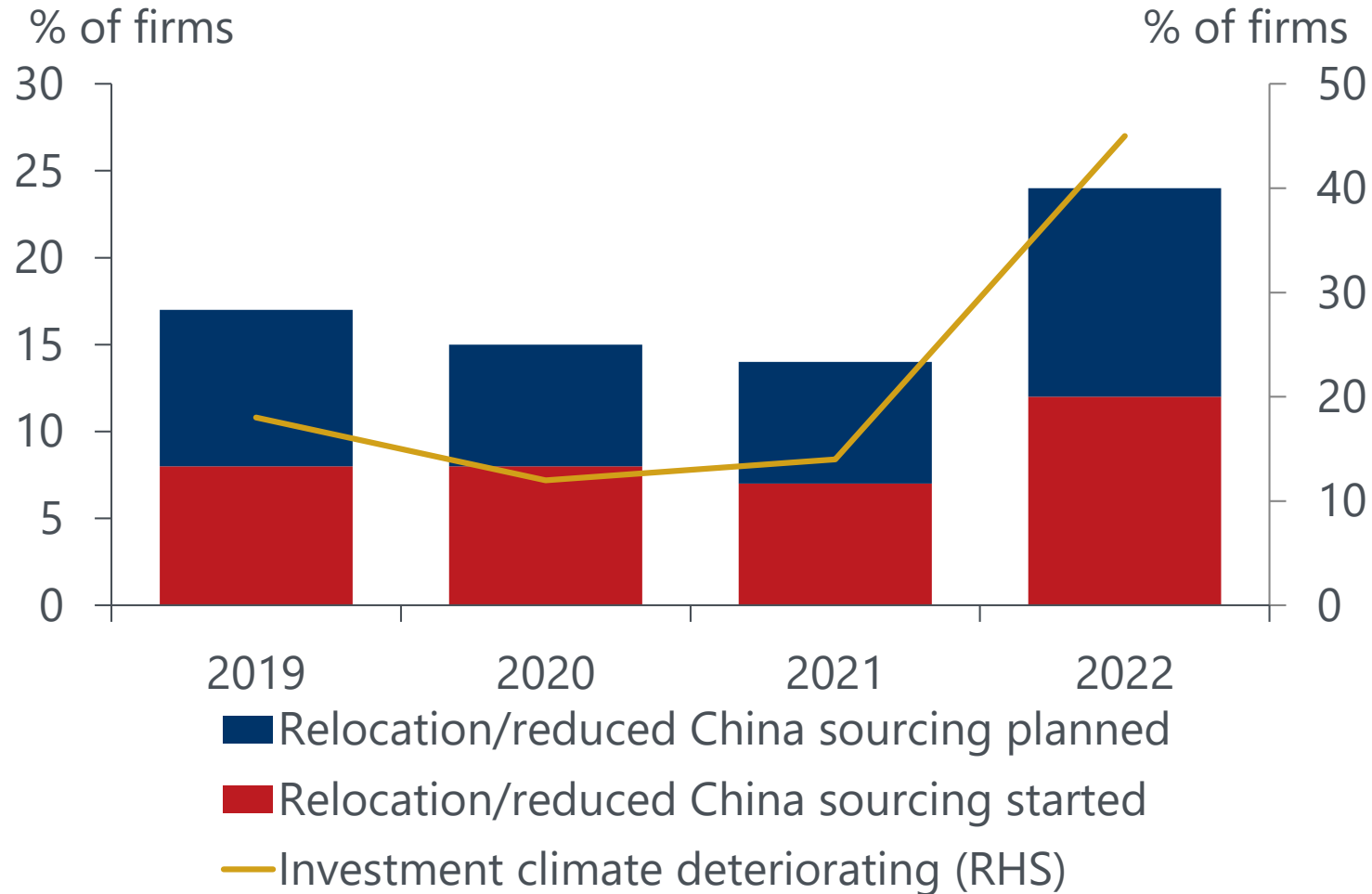
South and East Asia: Greenfield FDI



Source: Oxford Economics/UNCTAD

More US firms are considering relocation from China

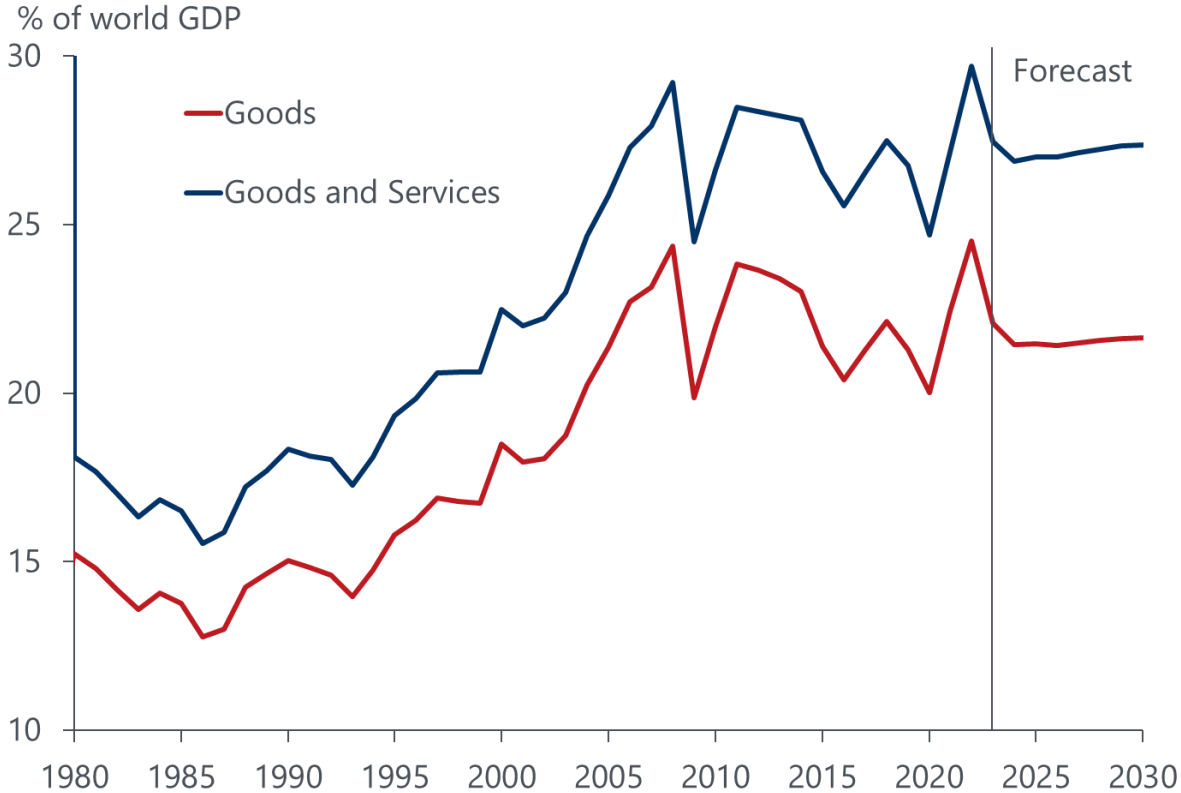
China: Firm relocations and investment climate



Source: Oxford Economics/American Chamber of Commerce Sth. China

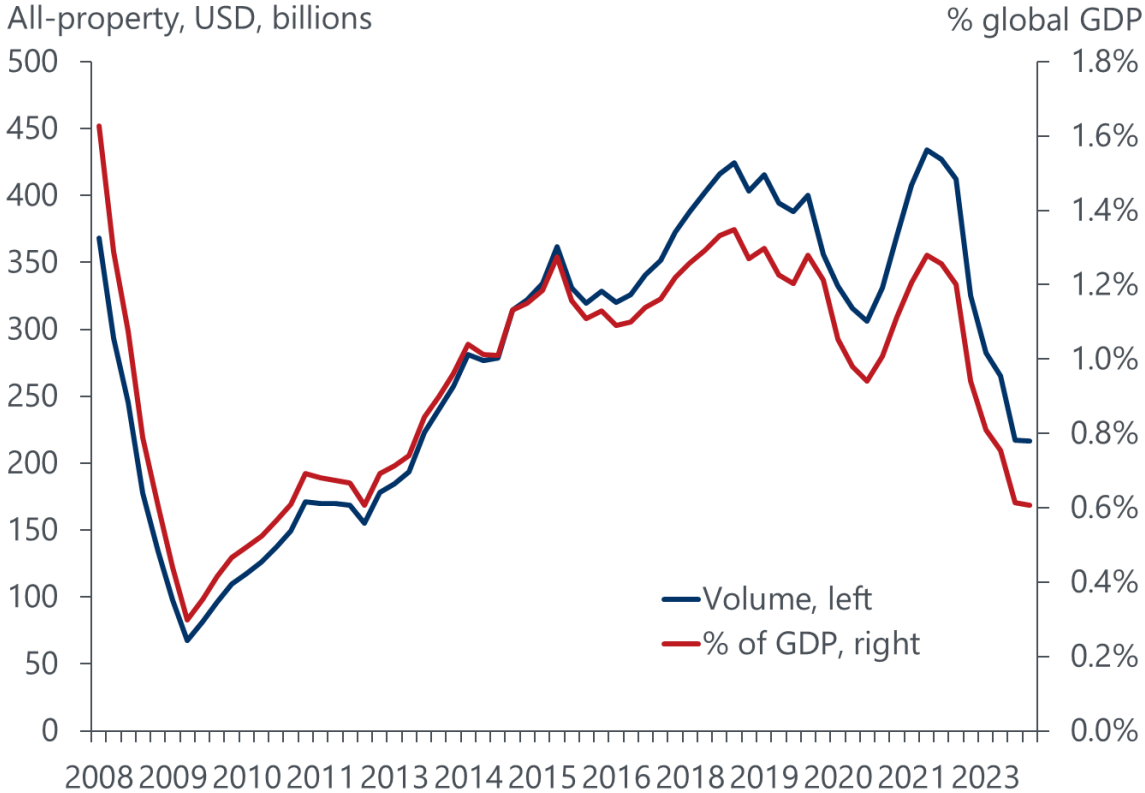
We're in a world of 'slowbalisation'

World: trade shares in GDP



Source: Oxford Economics/Haver Analytics

Global: CRE cross-border investment volumes

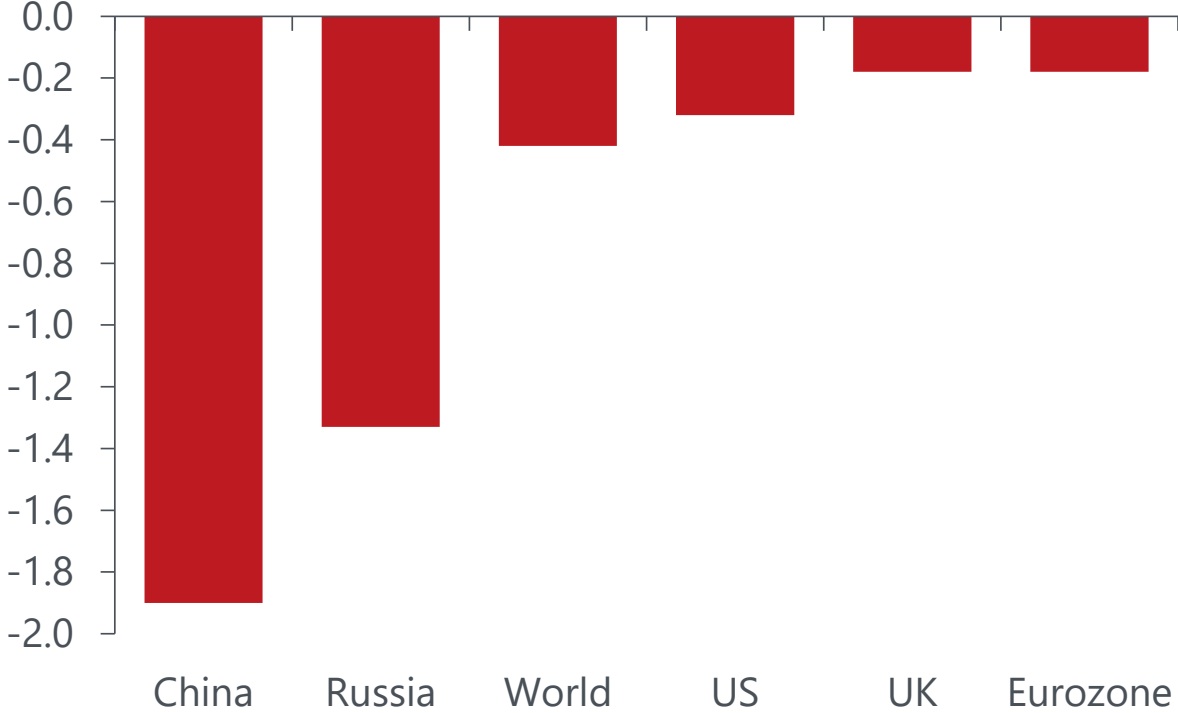


Source: Oxford Economics/MSCI Real Assets

Bigger risk/opportunity is tech decoupling

World: Impact of technological decoupling

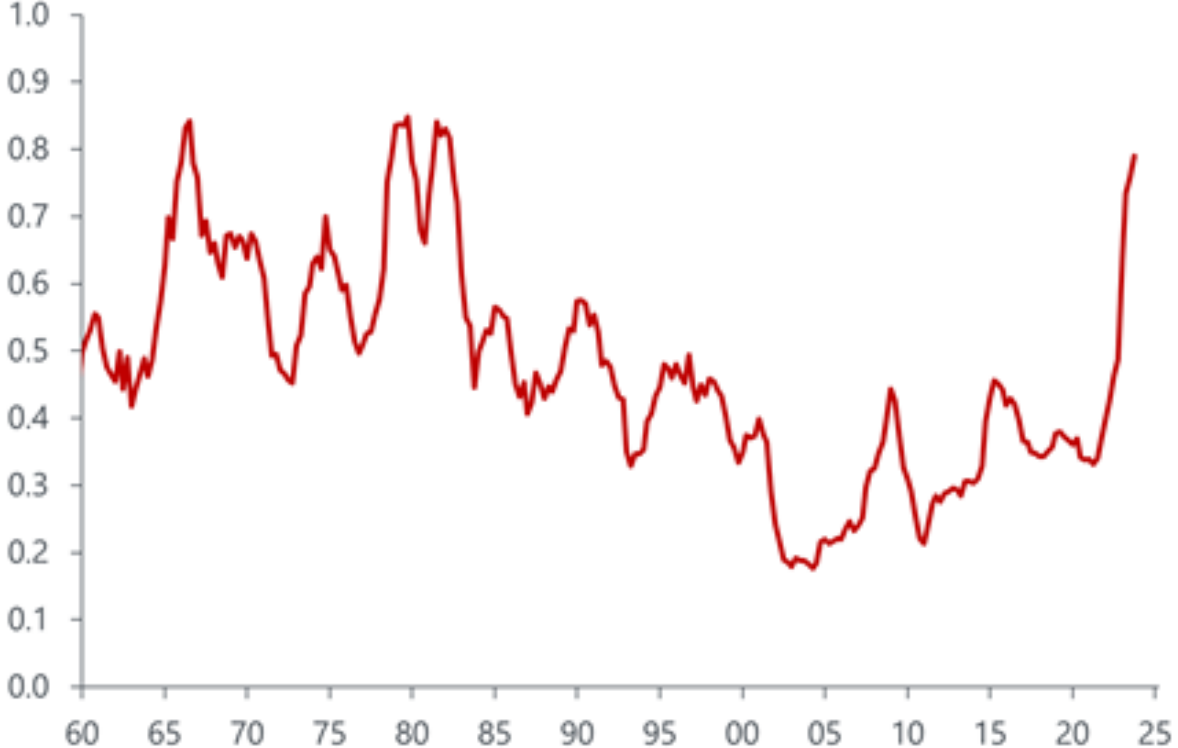
% difference between baseline GDP and decoupling simulation



Source: Oxford Economics/Haver Analytics

US: Manufacturing structures investment

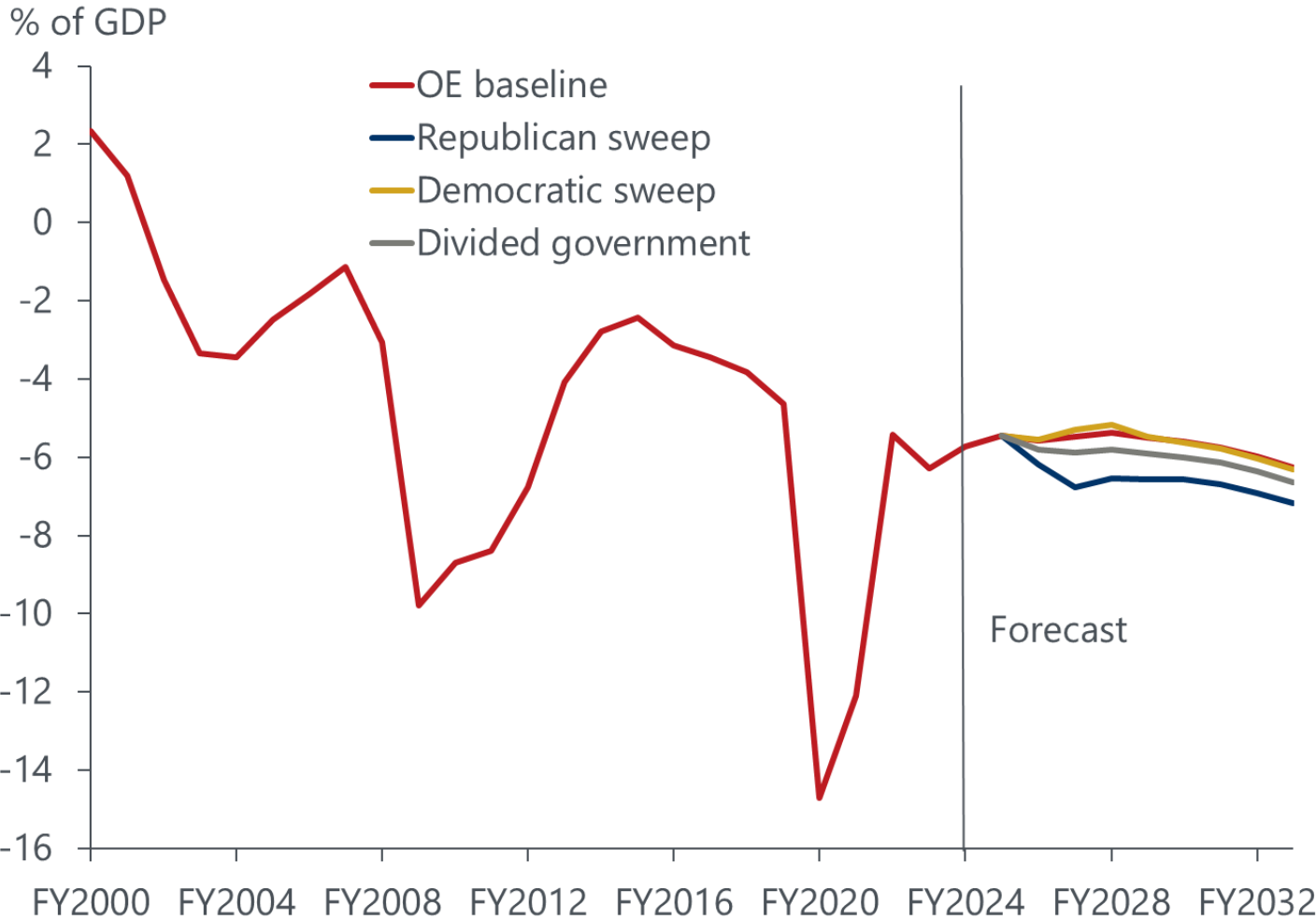
% GDP



Source: Oxford Economics/Haver Analytics

US elections set to result in looser fiscal policy...

US: Federal deficit under different post-election scenarios

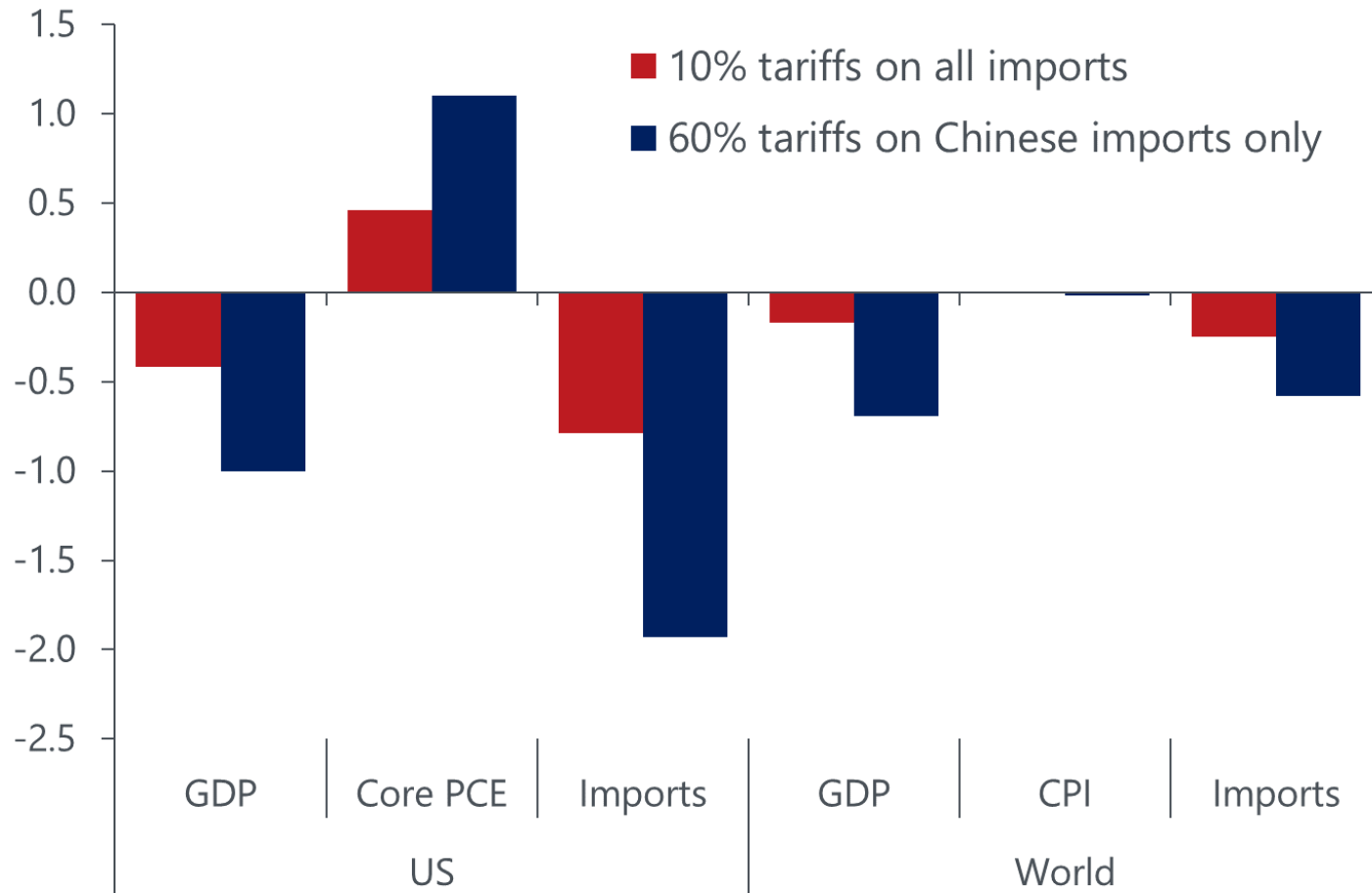


Source: Oxford Economics/Haver Analytics

...and more protectionism

US: impact of tariff scenarios

% difference from baseline in 2025



Source: Oxford Economics/Haver Analytics

Key points

- Trade policy set to remain protectionist whoever wins the election.
- But the form of protectionist measures is likely to be quite different.
- Democrats will likely continue to favour industrial subsidies and regulation.
- A Republican administration would likely turn to imposing more tariffs on the rest of the world.

Four key questions for real estate



Market pricing indicates a chance of persistently higher inflation

US: Market based probabilities of high or low inflation

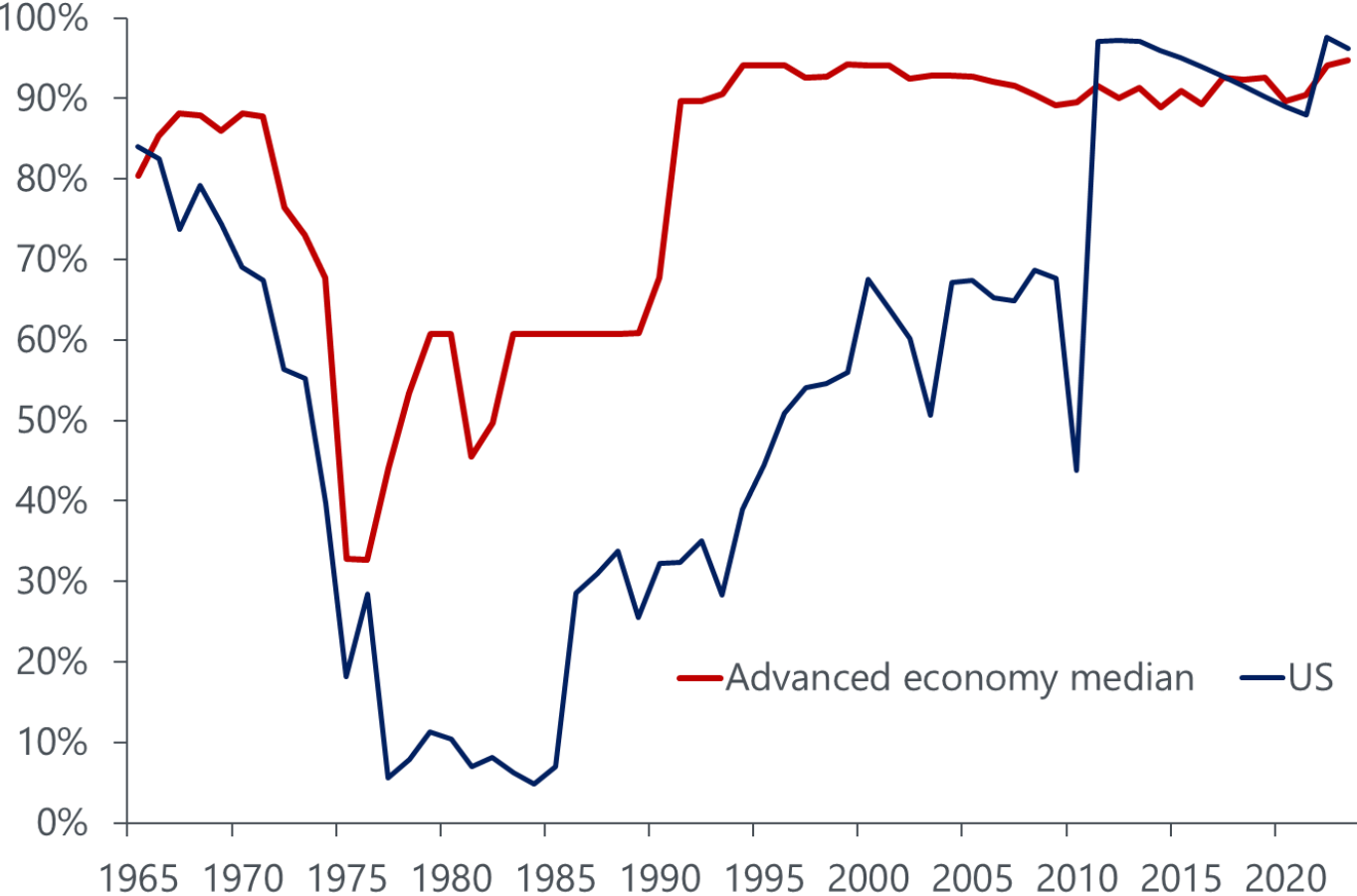


Source: Oxford Economics/Minneapolis Fed

Our model suggests we remain in a low inflation regime

Global: Low inflation regime probability

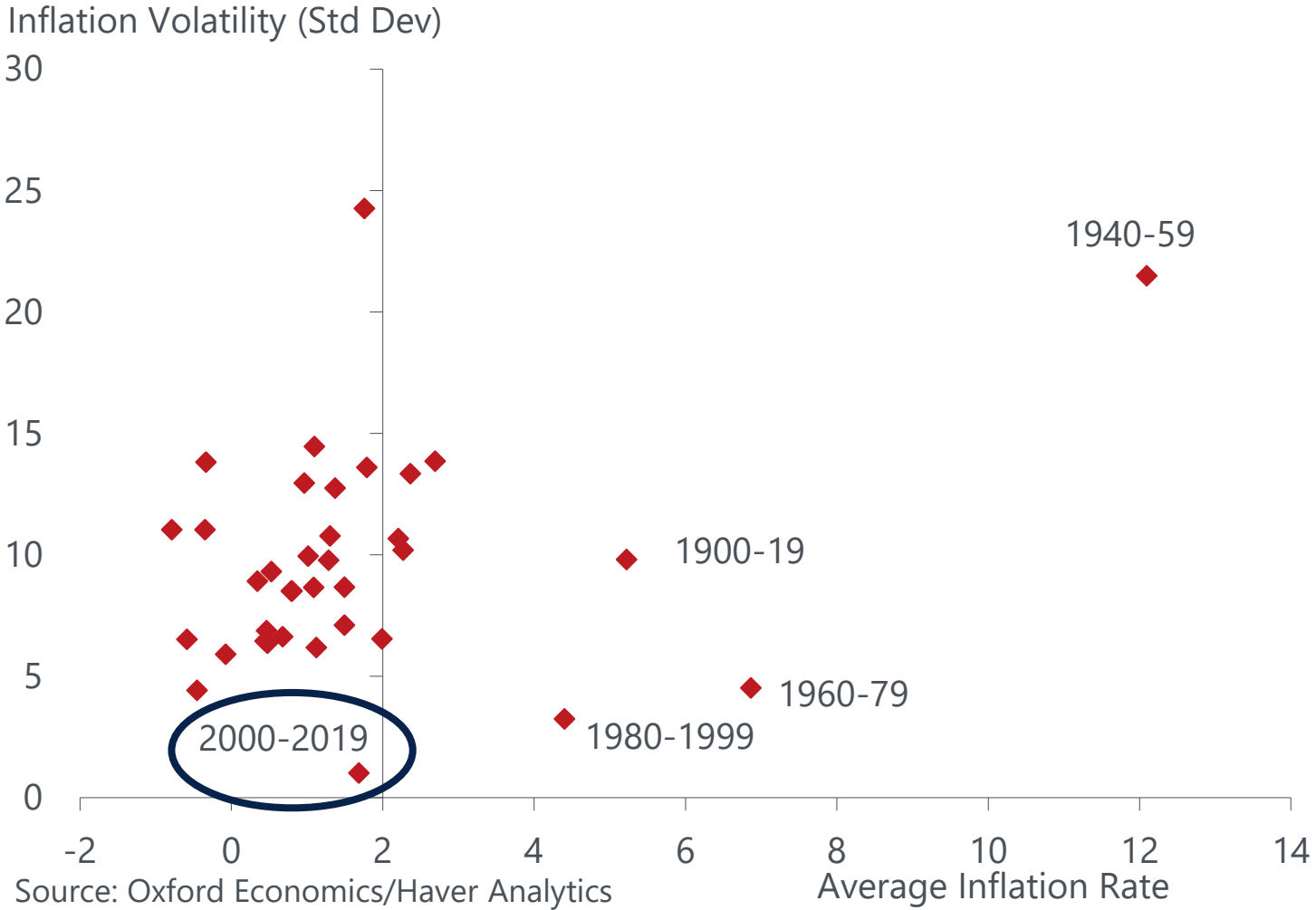
Probability of being in a low inflation regime



Source: Oxford Economics/Haver Analytics

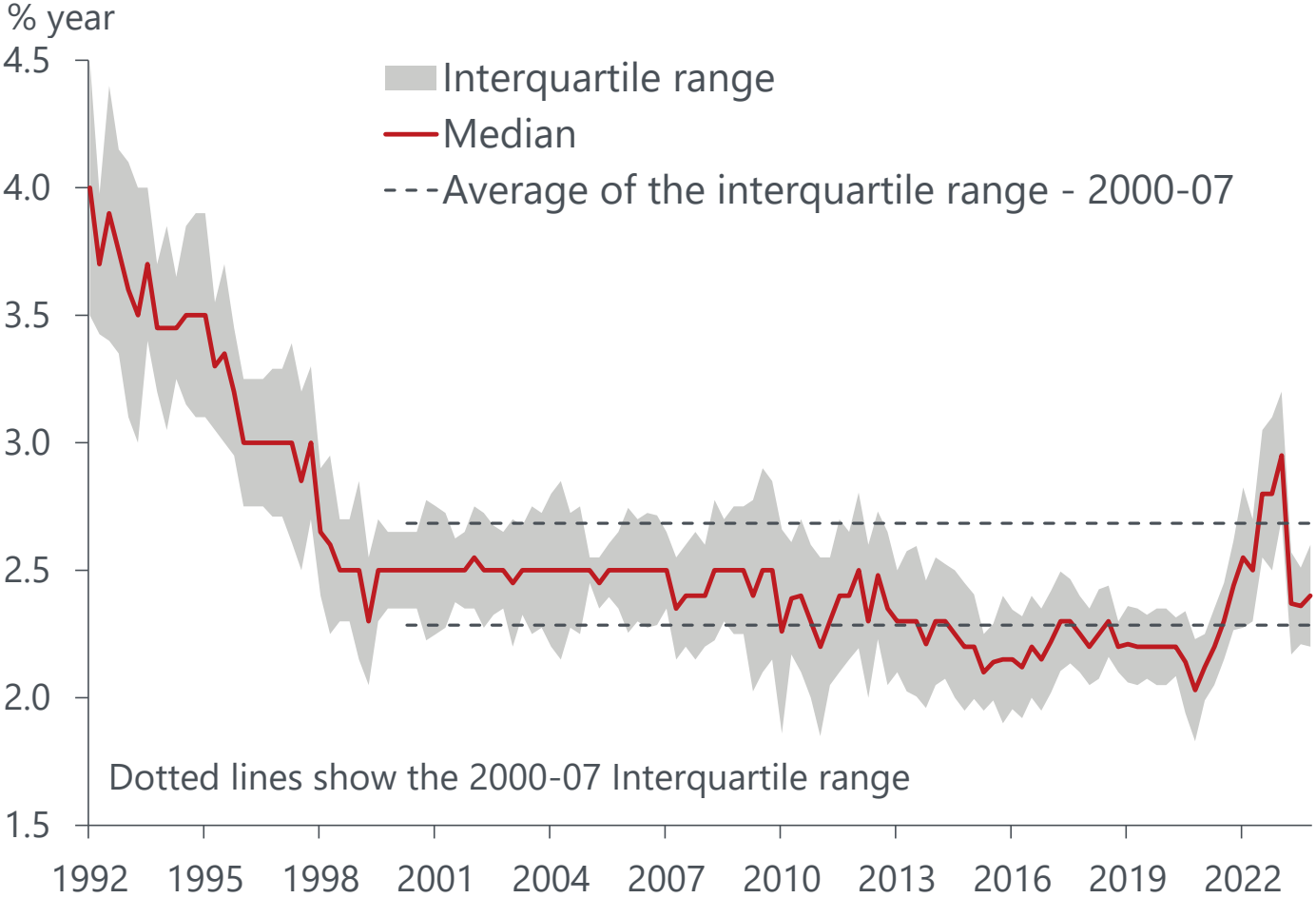
But the pandemic may mark a new era of inflation targeting

Advanced Economy Average Inflation and Inflation Volatility
in Successive 20-Year Periods Since 1320



Longer-term inflation expectations are less stable now

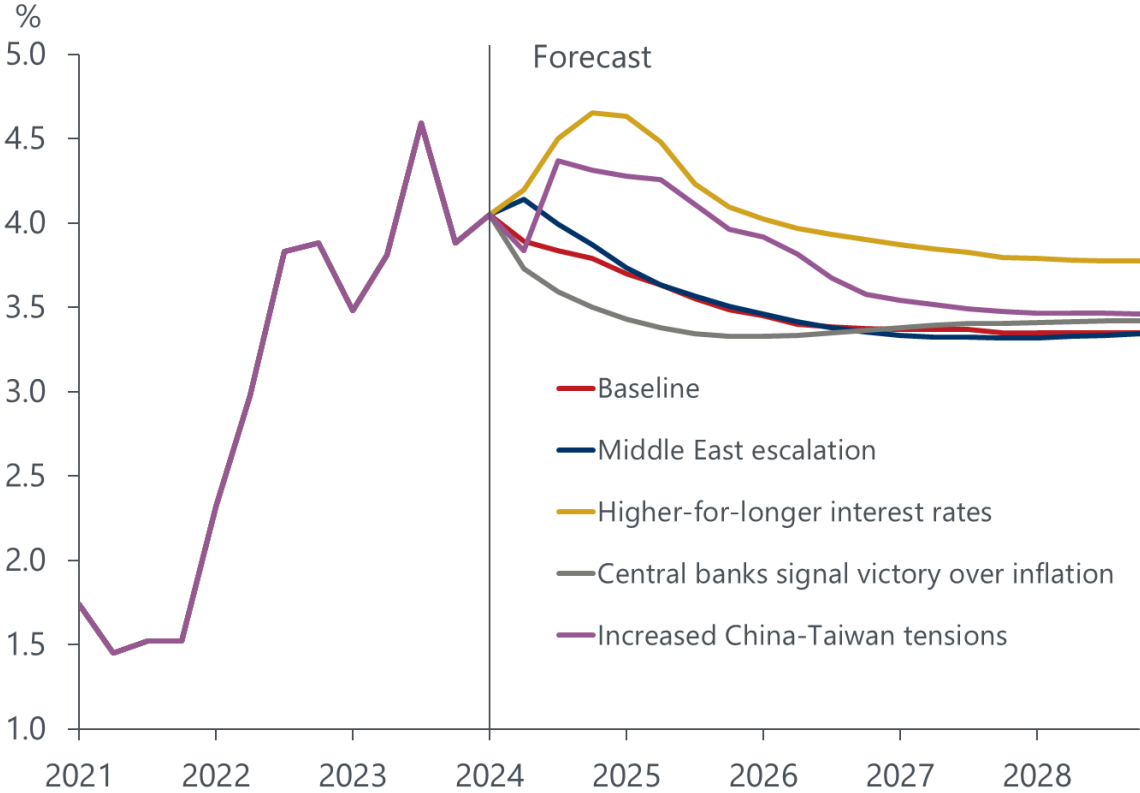
US: Long-term inflation expectations



Source: Oxford Economics/Haver Analytics/FRB Philadelphia survey of prof. forecasters

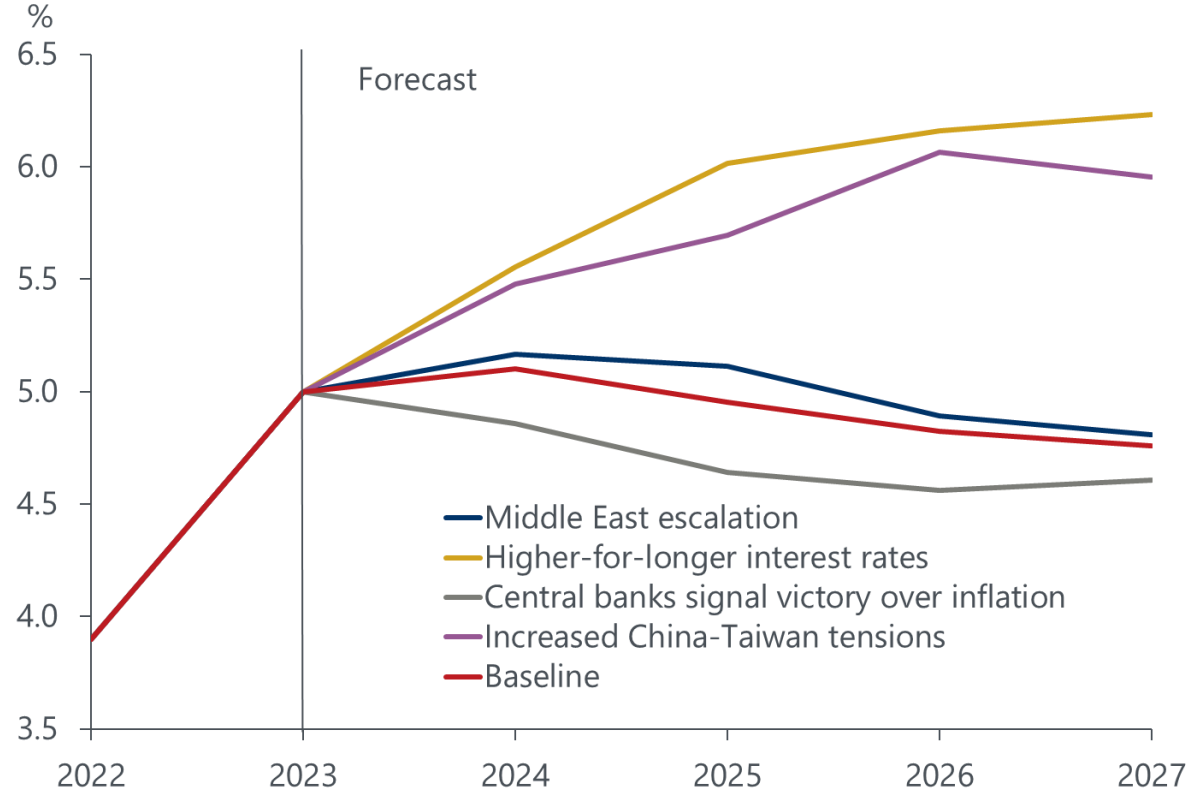
Uncertainty remains over the path of rates

US: 10y government bond yield



Source: Oxford Economics/Haver Analytics

US: all-property NOI yield by scenario



Source: Oxford Economics/MSCI

A year of transition

Forecast for United States						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
GDP	1.9	2.5	2.4	1.7	1.9	1.7
Private consumption	2.5	2.2	2.3	2.0	1.5	1.5
Fixed investment	0.9	2.0	3.8	4.1	4.2	3.5
Government consumption	-0.9	2.7	1.3	0.5	0.6	0.8
Exports of goods and services	7.0	2.7	2.0	3.6	5.9	5.8
Imports of goods and services	8.6	-1.6	1.7	4.6	5.3	5.0
Industrial production	3.4	0.2	0.6	2.1	1.6	1.5
Consumer prices	8.0	4.1	2.8	2.1	2.1	2.0
Unemployment rate (%)	3.6	3.6	3.9	4.1	4.2	4.2
Government balance (% of GDP)	-5.3	-6.2	-5.7	-5.3	-5.5	-5.4
Fed Funds (% EOP)	4.38	5.38	4.63	3.63	2.63	2.25
10yr UST yield (% EOP)	3.88	3.88	3.79	3.49	3.37	3.35
Total RE Return	5.5	-9.3	3.4	7.5	7.5	6.7
Income Return	3.9	4.4	4.6	4.5	4.5	4.5
Capital Return	1.6	-13.6	-1.2	2.9	3.0	2.2
NOI yield	3.9	4.9	5.0	4.9	4.8	4.8

Summary

- It is a year of transition for US CRE markets, and we think that the economic backdrop will remain conducive.
- Inflation and interest rates are set to fall over the course of the year, helping to ease some refinancing worries.
- Generative AI will provide opportunities but also represent some demand challenges over the longer term.
- The interest rate environment remains one of the key risks to the outlook.

Questions?

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